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COMMITTEE ON THE BUDGET
U.S. HOUSE OF REPRESENTATIVES

PRESIDENT REAGAN'S FISCAL YEAR 1983
BUDGET

[A Summary and Analysis Prepared by the Staff of the House
Budget Committee]



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ESTIMATES USED IN THIS ANALYSIS

All of the figures used in this analysis are based on numbers appearing in the President's Budget of February 8, 1982. However, pursuant to the Congressional Budget Act, the President is required to transmit revisions and reestimates to the budget by April 10 and July 15 of each year. Accordingly, on April 9, 1982, the President transmitted reestimates of his budget, increasing his estimated deficits for all years. This is attached as Appendix A.

The Congressional Budget Office has also prepared "An Analysis of the President's Budgetary Proposals for Fiscal Year 1983", which likewise reestimates upward the deficits inherent in the President's budget. A summary is attached as Appendix B.

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I. SUMMARY OF THE PRESIDENT'S 1983 BUDGET

The administration's 1983 budget continues the dramatic shift in the shape, direction and composition of the Federal budget and the national government proposed by the President last year. The principal elements are as follows:

- Major increases in defense spending.
- Major cuts in non-defense spending, including both entitlements and discretionary programs.
- A continuing reduction of the Federal role in human and capital investment programs such as education, transportation, nutrition, job training and other programs and transferring responsibility to State and local governments.
- Modest increases in revenue from user fees and revisions in the tax code, and, in addition,
- The incorporation of administrative initiatives to reduce Federal outlays.
- The elimination of the Departments of Education and Energy.

The administration's budget blueprint for 1982-1985 contains the largest budget deficits in the nation's history. The administration has presented Congress with a potential 1983 deficit of \$146 billion - more than twice the size of the largest deficit ever.

	(In billions of dollars)		
	<u>1983</u>	<u>1984</u>	<u>1985</u>
Administration's current services estimate:			
● Outlays.....	799.0	868.6	946.3
● Receipts.....	653.0	703.8	778.3
Administration's potential deficit.....	-145.6	-164.8	-168.0
Estimated deficit with administration's proposed budget cuts and tax increases.....	-91.5	-82.9	-71.9

The administration's budget plan proposes to reduce these deficits through the following:

	(In billions of dollars)		
	<u>1983</u>	<u>1984</u>	<u>1985</u>
Cuts in entitlement programs-- (i.e., medical entitlements, cash assistance and nutrition Federal retirement benefits)..	11.7	17.1	22.8
Cuts in other Federal programs-- (i.e., elementary and secondary education, training, employment, transportation, housing, health, energy, etc.).....	14.2	26.1	35.3
Tax revisions-- (i.e., business energy tax credits, corporate minimum tax, completed contract accounting, etc.).....	7.2	13.5	13.5
Management initiatives* (i.e., debt collection, prevention of waste, fraud, abuse, accelerated OCS leasing, etc.).....	14.8	18.5	19.2
User fees-- (i.e., Coast Guard fees, commercial nuclear waste fees, navigation fees, aircraft fees, etc.).....	2.5	3.5	3.8

Summary tables follow:

*This breakdown refers to outlays only. The revenue increases associated with management initiatives are \$5.5 billion, which when combined with the \$14.8 billion in outlays makes a total of \$20.3 billion.

I. SUMMARY OF PRESIDENT REAGAN'S PROPOSED BUDGET

A. Comparison Table, 1981-1985

	1981 Actual	Second Resolution 1982	Reagan Budget			
			1982	1983	1984	1985
Budget Authority.....	718.40	770.90	765.50	801.90	858.00	943.50
Outlays.....	657.20	695.45	725.30	757.60	805.90	868.50
Revenues.....	599.30	657.80	626.80	666.10	723.00	796.60
Deficit/Surplus.....	57.90	37.65	98.60	91.50	82.90	71.90
Debt Subject to Limit.....	998.80	1079.80	1130.00	1254.30	1368.70	1482.00
050--National Defense:						
Budget Authority....	182.40	226.30	218.90	263.00	291.00	338.00
Outlays.....	159.80	188.80	187.50	221.10	253.00	292.10
150--International Affairs:						
Budget Authority....	24.80	17.40	18.50	18.10	17.40	16.40
Outlays.....	11.10	11.15	11.10	12.00	12.30	13.00
250--General Science, Space and Technology:						
Budget Authority....	6.50	7.20	7.00	7.80	7.70	7.30
Outlays.....	6.40	7.00	6.90	7.60	7.80	7.40
270--Energy:						
Budget Authority....	6.80	4.50	4.80	4.30	4.50	4.10
Outlays.....	10.30	6.00	6.40	4.20	3.80	3.80
300--Natural Resources and Environment:						
Budget Authority....	11.10	8.20	10.00	8.40	7.70	7.30
Outlays.....	13.50	12.40	12.60	9.90	8.40	7.70
350--Agriculture:						
Budget Authority....	6.70	5.50	9.60	6.90	7.30	4.50
Outlays.....	5.60	4.50	8.60	4.50	5.10	4.60
370--Commerce and Housing Credit:						
Budget Authority....	6.50	7.70	6.30	3.40	4.20	4.60
Outlays.....	3.90	4.00	3.30	1.60	1.30	-0.50
400--Transportation:						
Budget Authority....	24.90	21.20	21.00	19.10	19.20	19.50
Outlays.....	23.40	20.40	21.20	19.60	18.80	19.40
450--Community and Regional Development:						
Budget Authority....	8.10	7.10	6.60	6.70	6.90	7.00
Outlays.....	9.40	8.70	8.40	7.30	6.70	6.90
500--Education, Training, Employment, and Social Services:						
Budget Authority....	30.60	26.20	23.50	18.80	17.70	17.80
Outlays.....	31.40	26.85	27.80	21.60	19.30	17.80

	1981 Actual	Second Resolution 1982	Reagan Budget			
			1982	1983	1984	1985
550--Health:						
Budget Authority....	68.90	83.50	79.20	77.80	81.40	93.60
Outlays.....	66.00	73.35	73.40	78.10	84.90	93.50
600--Income Security:						
Budget Authority....	249.90	262.70	252.30	257.60	281.90	310.20
Outlays.....	225.10	239.70	250.90	261.70	274.80	290.10
700--Veterans Benefits and Services:						
Budget Authority....	23.20	24.80	24.80	25.70	26.30	27.00
Outlays.....	23.00	24.05	24.20	24.40	25.60	26.90
750--Administration of Justice:						
Budget Authority....	4.30	4.30	4.30	4.50	4.60	4.50
Outlays.....	4.70	4.45	4.50	4.60	4.60	4.50
800--General Government:						
Budget Authority....	5.10	5.00	5.20	5.30	5.40	5.20
Outlays.....	4.60	4.90	5.10	5.00	5.20	4.90
850--General Purpose Fiscal Assistance:						
Budget Authority....	6.30	6.50	6.40	6.70	6.90	7.20
Outlays.....	6.90	6.40	6.40	6.70	6.80	7.10
900--Interest:						
Budget Authority....	82.50	85.70	99.10	112.50	116.20	119.70
Outlays.....	82.50	85.70	99.10	112.50	116.20	119.70
920--Allowances:						
Budget Authority....	...	...	-0.60	-1.40	-0.10	-0.30
Outlays.....	...	...	-0.60	-1.30	-0.20	-0.40
950--Undistributed Offsetting Receipts:						
Budget Authority....	-30.30	-32.90	-31.60	-43.50	-48.20	-50.00
Outlays.....	-30.30	-32.90	-31.60	-43.50	-48.20	-50.00

Note: Detail may not add due to rounding.

Source: Budget of the United States Government - Fiscal Year 1983. Executive Office of the President -- Office of Management and Budget.

FISCAL YEAR 1982

Comparison of Current Level, President's
Current Services and President's Budget
(in billions of dollars)

	CBO Current Level (2/5/82)	OMB Current Services (2/8/82)	OMB Budget Submission (2/6/82)
Budget authority.....	766.40	*	765.50
Outlays.....	738.30	727.70	725.30
Revenues.....	631.30	626.40	626.80
Deficit.....	-107.00	101.30	-98.60
Debt subject to limit.....	N/A	1132.70	1130.00
050-National defense:			
Budget authority.....	216.50	*	218.90
Outlays.....	190.15	*	187.50
150-International affairs:			
Budget authority.....	15.20	18.50	18.50
Outlays.....	10.95	11.10	11.10
250-General science, space, and technology:			
Budget authority.....	7.00	7.00	7.00
Outlays.....	6.90	6.90	6.90
270-Energy:			
Budget authority.....	5.05	5.00	4.80
Outlays.....	6.15	6.40	6.40
300-Natural resources and environment:			
Budget authority.....	7.80	7.60	10.00
Outlays.....	12.60	12.60	12.60
350-Agriculture:			
Budget authority.....	4.90	9.60	9.60
Outlays.....	13.95	8.60	8.60
370-Commerce and housing credit:			
Budget authority.....	6.65	6.30	6.30
Outlays.....	4.55	3.30	3.30
400-Transportation:			
Budget authority.....	19.55	20.40	21.00
Outlays.....	21.00	21.10	21.20
450-Community and regional development:			
Budget authority.....	6.80	6.60	6.60
Outlays.....	8.85	8.40	8.40
500-Education, training, employment, and social services:			
Budget authority.....	24.90	25.00	23.50
Outlays.....	26.75	26.20	27.80
550-Health:			
Budget authority.....	83.20	80.20	79.20
Outlays.....	77.00	74.00	73.40
600-Income security:			
Budget authority.....	260.65	264.00	252.30
Outlays.....	251.85	251.50	250.90
700-Veterans benefits and services:			
Budget authority.....	24.20	24.80	24.80
Outlays.....	23.70	24.20	24.20
750-Administration of justice:			
Budget authority.....	4.50	4.50	4.30
Outlays.....	4.55	4.60	4.50
800-General government:			
Budget authority.....	4.85	4.90	5.20
Outlays.....	4.70	4.90	5.10
850-General purpose fiscal assistance:			
Budget authority.....	6.50	6.40	6.40
Outlays.....	6.50	6.40	6.40
900-Interest:			
Budget authority.....	101.75	99.10	99.10
Outlays.....	101.75	99.10	99.10
920-Allowances:			
Budget authority.....	0.65	0.40	-0.60
Outlays.....	0.65	0.40	-0.60
950-Undistributed offsetting receipts:			
Budget authority.....	-34.25	-31.60	-31.60
Outlays.....	-34.25	-31.60	-31.60

*Detailed information not available.

FISCAL YEAR 1983

Comparison of Current Policy,
Current Services and President's Budget
(in billions of dollars)

	CBO Current Policy (2/5/82)	OMB Current Services (2/8/82)	OMB Budget Submission (2/8/82)
Budget authority.....	863.00	*	801.90
Outlays.....	809.00	799.00	757.60
Revenues.....	652.00	653.30	666.10
Deficit.....	157.00	145.60	91.50
Debt subject to limit.....	N/A	1308.40	1254.30
050-National defense:			
Budget authority.....	242.00	*	263.00
Outlays.....	214.00	*	221.10
150-International affairs:			
Budget authority.....	17.00	18.00	18.10
Outlays.....	12.00	11.70	12.00
250-General science, space, and technology:			
Budget authority.....	7.00	7.70	7.80
Outlays.....	7.00	7.60	7.60
270-Energy:			
Budget authority.....	6.00	5.70	4.30
Outlays.....	5.00	5.50	4.20
300-Natural resources and environment:			
Budget authority.....	11.00	7.50	8.40
Outlays.....	12.00	10.70	9.90
350-Agriculture:			
Budget authority.....	6.00	7.00	6.90
Outlays.....	8.00	4.50	4.50
370-Commerce and housing credit:			
Budget authority.....	6.00	5.80	3.40
Outlays.....	3.00	3.60	1.60
400-Transportation:			
Budget authority.....	22.00	20.60	19.10
Outlays.....	21.00	20.90	19.60
450-Community and regional development:			
Budget authority.....	8.00	7.50	6.70
Outlays.....	8.00	7.30	7.30
500-Education, training, employment, and social services:			
Budget authority.....	28.00	27.30	18.80
Outlays.....	27.00	26.70	21.60
550-Health:			
Budget authority.....	92.00	82.10	77.80
Outlays.....	88.00	82.50	78.10
600-Income security:			
Budget authority.....	286.00	285.50	257.60
Outlays.....	273.00	271.50	261.70
700-Veterans benefits and services:			
Budget authority.....	25.00	26.20	25.70
Outlays.....	25.00	24.90	24.40
750-Administration of justice:			
Budget authority.....	5.00	4.80	4.50
Outlays.....	5.00	4.80	4.60
800-General government:			
Budget authority.....	5.00	5.10	5.30
Outlays.....	5.00	4.80	5.00
850-General purpose fiscal assistance:			
Budget authority.....	7.00	6.60	6.70
Outlays.....	7.00	6.60	6.70
900-Interest:			
Budget authority.....	127.00	115.10	112.50
Outlays.....	127.00	115.10	112.50
920-Allowances:			
Budget authority.....	2.00	1.60	-1.20
Outlays.....	2.00	1.50	-1.30
950-Undistributed offsetting receipts:			
Budget authority.....	-39.00	-33.40	-43.50
Outlays.....	-39.00	-33.40	-43.50

*Detailed information not available.

II. THE DEFICIT REDUCTION PLAN

The administration's budget assumes reductions in the deficits for two reasons: First, the economy is assumed to improve consistently from fiscal year 1982 on; second, the administration proposes spending reductions and tax increases which would reduce deficits by \$3 billion in 1982, \$56 billion in 1983, \$84 billion in 1984 and \$99 billion in 1985.

The composition of these reductions for fiscal years 1982-85 is:

(In billions of dollars)

Program	Fiscal Years			
	1982	1983	1984	1985
A. Entitlement savings.....	1.4	11.7	17.1	22.8
B. User fee increases.....	0.2	2.5	3.5	3.8
C. Management initiatives.....	1.2	20.3	24.0	23.9
D. Discretionary reductions.....	0.1	14.2	26.1	35.3
E. Tax revisions.....	...	7.2	13.5	13.5
	<u>2.9</u>	<u>55.9</u>	<u>84.1</u>	<u>99.3</u>

A. ENTITLEMENT SAVINGS

(In billions of dollars)

Program	Fiscal Years			
	1982	1983	1984	1985
Medicaid.....	0.3	2.0	2.3	3.7
Medicare.....	0.3	2.5	5.1	7.8
AFDC.....	0.2	1.2	1.1	1.1
Child Support Enforcement.....	*	0.1	0.2	0.2
Food Stamps.....	0.3	2.4	2.8	2.9
Child Nutrition and Special Milk..	...	0.3	0.4	0.5
Welfare Administration.....	...	0.3	0.4	0.5
Supplemental Security Income.....	0.1	0.3	0.5	0.7
Civil Service Retirement.....	*	0.5	1.1	1.5
Military Retirement.....	...	0.1	0.2	0.3
Railroad Retirement.....	...	2.0	2.2	2.4
Federal Employees Compensation Act	...	0.1	0.1	0.1
Unemployment Benefits.....	*	0.1	0.1	0.1
Veterans Administration.....	*	0.2	0.5	0.5
Guaranteed Student Loans.....	<u>0.2</u>	<u>0.8</u>	<u>1.1</u>	<u>1.4</u>
TOTAL OUTLAY SAVINGS.....	(1.4)	(12.8)	(18.1)	(23.8)

Revenue Effect of Entitlement Savings

Railroad retirement.....	...	1.7	1.8	1.9
Medicare coverage of Federal employees.....	...	-0.6	-0.8	-0.9
NET REVENUE EFFECT.....	(...)	(1.1)	(1.0)	(1.0)
TOTAL EFFECT ON THE DEFICIT.....	1.4	11.7	17.1	22.8

B. USER FEE INCREASES

(In billions of dollars)

Program	FY 1982	FY 1983	FY 1984	FY 1985
Coast Guard.....	...	0.2	0.8	0.8
Corps of Engineers Navigation Fees	...	0.4	0.5	0.5
Commercial Nuclear Waste.....	...	0.3	0.5	0.5
Airport and Airway Trust Fund....	0.1	1.2	1.4	1.5
Passport and User Fees.....	*	0.1	0.1	0.1
Other Miscellaneous Fees.....	...	0.3	0.3	0.3
TOTAL USER FEES.....	0.2	2.5	3.5	3.8

C. MANAGEMENT INITIATIVES PROPOSALS

(In billions of dollars)

Program	FY 1982	FY 1983	FY 1984	FY 1985
Fraud, Waste, and Abuse.....	1.0	1.0	1.0	1.0
Improved Debt Collection.....	...	1.0	1.0	2.0
Federal Employment Reduction.....	...	...	...	0.7
Federal Property Disposition.....	...	1.0	4.0	4.0
Accelerated OCS Leasing.....	...	8.4	7.8	5.8
Federal Pay Restraint.....	...	1.4	3.0	4.5
Improved Asset Sale Management....	0.1	1.3	1.0	0.5
Revised FHA Mortgage Insurance Payments.....	...	0.7	0.7	0.7
TOTAL OUTLAYS.....	1.1	14.8	18.5	19.2
Revenues increased -				
Speed up corporate tax collections.....	...	1.4	1.7	0.9
Withholding on interest and dividends.....	...	2.0	1.3	1.4
IRS enforcement and collections.....	0.2	2.1	2.4	2.4
TOTAL REVENUES.....	(0.2)	(5.5)	(5.5)	(4.7)
TOTAL EFFECT ON THE DEFICIT.....	1.2	20.3	24.0	23.9

D. DISCRETIONARY PROGRAM REDUCTIONS

(In billions of dollars)

Program (major examples)	Fiscal Years			
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Energy research, development conservation and regulation....		0.9		
Natural resources and environment.....		0.7		
Transportation		1.6		
Elementary and secondary education.....		1.0		
Training and employment	(Not	2.2	(Specifics not	
Social Services.....	applicable)	1.0	available)	
Housing assistance.....		0.6		
Low income energy assistance.....		0.6		
Discretionary health and income security		1.3		
Lower level of borrowing.....		2.7		
All other.....		<u>1.7</u>		
TOTAL OUTLAYS.....		<u>14.2</u>	<u>26.1</u>	<u>35.3</u>

The total potential impact of the administration's proposed reductions in discretionary programs is not reflected in the \$14.2 billion outlay total because the administration's budget projections do not include an inflation adjustment for most discretionary programs. For example, the administration assumes an inflation rate of 6 percent for 1983.

E. TAX REVISIONS

(In billions of dollars)

Program	Fiscal Years			
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Tax revisions:				
Completed contract accounting....	...	3.3	5.0	3.2
Business energy tax credits.....	...	0.1	0.4	0.6
Tax-exempt revenue bonds.....	...	-0.2	0.3	1.1
Modified coinsurance.....	...	1.1	2.2	2.5
Construction period interest and taxes.....	...	0.5	1.1	1.0
Corporate minimum tax.....	<u>...</u>	<u>2.3</u>	<u>4.6</u>	<u>5.1</u>
TOTAL TAX REVISIONS.....	<u>...</u>	<u>7.2</u>	<u>13.5</u>	<u>13.5</u>

*Less than \$50 million

NOTE: Detail may not sum to totals due to rounding.

CONGRESSIONAL BUDGET OFFICE PROJECTIONS

The following table compares the administration's deficits with those projected by CBO in its Baseline Budget Projections. The two differ partly because the administration has more optimistic economic assumptions (especially in fiscal year 1984 and fiscal year 1985). The primary difference is that the CBO Baseline does not assume changes in currently legislated spending or tax policy, while the administration is proposing net spending cuts and tax increases.

Deficits
(in billions of dollars)

<u>Fiscal Year</u>	<u>Administration</u>	<u>CBO Baseline</u>	<u>Difference</u>
1981 actual	57.9	57.9	...
1982	98.6	109.0	10.4
1983	91.5	157.0	65.5
1984	82.9	188.0	105.1
1985	71.9	208.0	136.1

DEFICITS: HISTORICAL PERSPECTIVE

The deficits proposed by the administration are the largest ever; the following table lists the 10 largest deficits.

<u>Rank</u>	<u>Fiscal Year</u>	<u>Deficit</u>	<u>Administration</u>
1	1982	98.6	Reagan
2	1983	91.5	Reagan
3	1984	82.9	Reagan
4	1985	71.9	Reagan
5	1976	66.4	Ford
6	1980	59.6	Carter
7	1981	57.9	Reagan
8	1943	54.9	Roosevelt
9	1978	48.8	Carter
10	1945	47.5	Roosevelt

The size of the economy has changed significantly over the last half century; therefore the administration's analysis measures the deficit as a percentage of gross national product (GNP). By this standard, the World War II era far surpasses any other; the fiscal year 1943 deficit reached 31 percent of GNP. Since that period, however, the 10 largest deficits as a percent of GNP have been:

Deficits as a Percentage of GNP Since 1948

<u>Rank</u>	<u>Fiscal Year</u>	<u>Percent</u>	<u>Administration</u>
1	1976	4.0	Ford
2	Proposed 1982	3.2	Reagan
3	1975	3.1	Ford
4	1968	3.0	Johnson
5	Proposed 1983 & 1959	2.7	Reagan & Eisenhower
6	1977	2.4	Carter
7	1978 & 1980	2.3	Carter
8	Proposed 1984 & 1971	2.2	Reagan & Nixon
9	1972	2.1	Nixon
10	1981	2.0	Reagan

CONTROLLABILITY OF SPENDING

In dealing with high deficits and plans to reduce them, an understanding of the capacity for Congress to control spending in any given fiscal year is necessary.

Over three-fourths of the outlays in President Reagan's fiscal year 1983 budget are mandatory under existing law, i.e., "relatively uncontrollable."

The discretionary portion of the budget has been shrinking over the last decade. In fiscal year 1973 the discretionary part was 33 percent of total outlays, while the fiscal year 1983 level is 23 percent, even though it includes large defense increases.

These numbers are from President Reagan's 1983 budget; they differ in a number of key respects from congressional definitions of controllability, in part because there are programs over which the President has substantial control under existing law, even though Congress does not. Most of such programs involve offsetting receipts. An example is "Rents and Royalties on the Outer Continental Shelf". The President has some discretion on the timing of OCS auctions, while the Congress has none, so this \$18 billion item is not controllable by Congress. Using congressional definitions, the President's fiscal year 1983 budget is 28 percent discretionary.

Mandatory Spending

The mandatory portion of the fiscal year 1983 outlays is divided by the President's budget into three parts: 1) Payments for Individuals (\$355 billion); 2) Other Open-ended Programs and Fixed Costs (\$80 billion); 3) Outlays from those prior-year contracts and obligations that flow from discretionary appropriations (\$130 billion).

1. Payments for Individuals consist of cash payments by the Federal Government for which no goods or services are purchased. They are often called "transfer payments". Examples are social security, unemployment compensation, and Federal retirement. Outlays for this category total \$355 billion in fiscal year 1983, a 270 percent increase since fiscal year 1973. It is this category that is primarily responsible for the increase in budget uncontrollability. Most payments to individuals are indexed directly or indirectly to the CPI, and many have experienced great growth in the number of eligible recipients.
 - 1 The social security and railroad retirement system is the largest element of this category, with outlays of \$176 billion in fiscal year 1983. Medicare/medicaid total \$76 billion, and Federal employee retirement programs total \$49 billion.
2. Other Open-ended Programs and Fixed Costs are for a wide variety of different programs, including many offsetting receipts. Interest on debt, totaling \$133 billion, dominates this category. (The President includes the legislative and judiciary branches in this category, totaling \$2 billion. He has no control since, by law, he

must transmit those budgets without change. The Congress can amend them, however, so they are controllable by Congress.)

3. Outlays from Prior-Year Discretionary Appropriations is money that entered the pipeline in some previous year, but is just now flowing out. Of the \$130 billion in this category, about 54 percent is for defense. These fiscal year 1983 outlays can be cut only by rescinding existing appropriations. In many cases the funds in the pipeline are already contractually committed, so rescission may not be practical. However, Congress has control right now over such future outlays since it can determine on an annual basis the appropriations that enter the pipeline. This is one reason why Congress has more long-term control than short-term control over outlays, and why planning now for outyear spending levels is recommended in the President's budget.

The remaining outlays in the President's fiscal year 1983 budget -- about \$172 billion -- are discretionary; their level will be determined by appropriations actions this session. About 78 percent of this amount is for national defense.

A final point is that off-budget outlays, totalling \$16 billion, are also beyond congressional control under existing law, and contribute to the increase in the debt.

III. THE RECESSION AND ECONOMIC ASSUMPTIONS

Source of the Recession

The recession which has so drastically worsened the budget deficit for fiscal year 1982 and fiscal year 1983 is explained in the budget as follows:

"The final wave of excess Government spending and credit expansion during the second half of 1980 virtually ensured the substantial shrinkage in real output and the rise in unemployment that in fact occurred in 1981. As a result of this artificial stimulus, economic imbalances worsened, financial market disruptions intensified, and business and consumer attitudes turned more pessimistic."

No hint that such a development was imminent appears in the economic forecast made by the new administration in March 1981. At that time they projected rising economic growth during 1981 and an unemployment rate of 7.7 percent for the fourth quarter of 1981, and added:

"In fact, if each portion of this comprehensive economic program is put in place -- quickly and completely -- the economic environment could improve even more rapidly than envisioned in these assumptions."

In addition, this explanation of the recession is not well supported by the facts:

- The rapid money growth in the second half of 1980 principally just made up for a sharp decline in the money supply in the second quarter, in an effort to hold money growth to the targets. For the year as a whole, growth in M1 was only 0.5 percent above the target range.
- The rapid increase in Federal spending during the second half of 1980 cannot be described as "artificial stimulus" because it is mainly accounted for by defense spending and cost-of-living adjustments to social security and other pension recipients.
- Defense purchases expanded at a 21 percent rate.
- Transfer payments to persons expanded at a 28 percent rate. Half of this was accounted for by the once-a-year cost-of-living adjustment for social security recipients which occurs automatically in the third quarter of the year.
- Nondefense purchases expanded at a 1 percent rate, far below the rate of inflation.
- Interest payments expanded at a 3 percent rate.

- Grants to state and local governments expanded at an 11 percent rate.

The worsening in economic imbalances, the disruption in financial markets, and the increasing pessimism in business and consumer attitudes, occurred in the second half of 1981, after the development and enactment of the administration program.

- The peaks in interest rates did not occur until September 1981, after the President's tax and spending program had been passed and signed into law in July and August 1981.
- Employment rose to a peak of 100.9 million persons employed in July 1981 and then began to decline; it has fallen by 1.3 million persons since then. The unemployment rate fell to a low of 7.2 percent of the labor force in July 1981 and has since risen to 8.8 percent in December. (If it were not for 300,000 persons dropping out of the labor force, the rate would have been 8.8 percent in January 1981 as well.)
- The Michigan Survey of Consumer Attitudes shows that consumer opinions about expected business conditions and the government's economic policy did not begin to deteriorate until September 1981 or later.
- Business confidence, as measured by the Conference Board survey of 1500 business executives, rose from an index of 29 in the second quarter of 1980 to an index of 57 in the third quarter of 1981, then tumbled to 43 in the fourth quarter of 1981.

A far more plausible explanation for the current recession is that it arises from the contradictions in the administration's economic policy. The administration has endorsed stringent money growth targets while enacting massive tax cuts and a large buildup in defense spending. Long-term interest rates -- the rates that are important for investment in housing, plant, and equipment -- reflect market assessments of future interest rates as well as the current degree of monetary restraint. Exceptionally tight money and expectations of both tight money and huge deficits in future years drove up interest rates, which strangled housing and business investment and "strengthened" the dollar so much that it damages the competitiveness of American-made manufactures in domestic and world markets by encouraging imports and discouraging exports.

The administration claims that the reduction in inflation is a result of its policies:

"From the standpoint of the administration's redirection of policy, the most encouraging development in 1981 was the substantial reduction in the rate of inflation. Money supply growth during 1981 fell to 5 percent, the first year since 1976 that it was below 7 percent. Inflation rates correspondingly declined..."

This tight monetary policy that reduced inflation is, of course, the same policy that brought about the recession. The administration cannot take credit for the reduction in inflation and blame the recession on "excesses of the past." Contrary to the administration's position, inflation cannot be reduced by tight money alone without reducing economic growth, business and housing investment, and employment as well.

General Character of the Administration's Economic Assumptions

The administration's economic assumptions for the fiscal year 1983 budget are similar to those of the March 1981 revisions to the fiscal year 1982 budget regarding the overall path of the economy over the next five years. The major differences, which have a significant impact on the budget, reflect the developments in 1981 which culminated in the recession in the second half of the year and early 1982. The administration forecasts an end to the recession in the first half of 1981 and a moderate recovery during the second half.

During 1983 economic growth accelerates to over 5 percent, and for the period from 1982 to 1987, real growth is projected to average 4.7 percent per year. Inflation measured by the CPI falls sharply from 9.4 percent during 1981 to 4.7 percent during 1984 and remains at about that level through 1987. Short-term interest rates are assumed to steadily decline from the 1981 average of 14.1 percent to 5.5 percent in 1987. The unemployment rate, which rose to 8.8 percent in December 1981, is forecast to rise somewhat more during 1982 and average 8.9 percent for the entire year. It subsequently falls, reflecting real growth consistently above the rate of growth of potential GNP, reaching an annual average of 5.3 percent in 1987.

The administration points out that these projections assume that its budget program is fully implemented, and that monetary policy will continue to restrain the growth of money and credit. However, the interaction between these policies raises questions about the effects of real (inflation-adjusted) interest rates on investment and real growth, as discussed below.

The major economic assumptions for 1982-1987 in the administration budget are shown in Table 1.

TABLE 1
MAJOR ECONOMIC ASSUMPTIONS
IN THE ADMINISTRATION'S FISCAL YEAR 1983 BUDGET
(percent change)

	Calendar Years						
	Actual 1981	Forecast- 1982	1983	-----Projections----- 1984	1985	1986	1987
<u>Fourth Quarter to Fourth Quarter</u>							
Gross national product:							
Current dollars	9.3	10.4	11.0	10.0	9.4	9.1	8.9
Constant (1972) dollars	0.7	3.0	5.2	4.9	4.6	4.3	4.3
GNP deflator	8.6	7.2	5.5	4.9	4.6	4.6	4.4
Consumer Price Index	9.4	6.6	5.1	4.7	4.6	4.6	4.4
Unemployment rate (percent, fourth quarter)	8.4	8.4	7.6	6.8	6.2	5.6	5.2
<u>Annual Averages</u>							
Gross national product:							
Current dollars							
Level (\$ billions)	2922	3160	3524	3883	4258	4651	5068
Percent change	11.3	8.1	11.5	10.2	9.7	9.2	9.0
Constant (1972) dollars	2.0	0.2	5.2	5.0	4.7	4.4	4.3
GNP deflator	9.1	7.9	6.0	5.0	4.7	4.6	4.5
Consumer Price Index	10.3	7.3	6.0	4.6	4.8	4.6	4.5
Unemployment rate (percent)	7.6	8.9	7.9	7.1	6.4	5.8	5.3
3-month Treasury bill rate (percent)	14.1	11.7	10.5	9.5	8.5	7.0	5.5

Comparison with Other Economic Forecasts and Projections

Tables 2 and 3 below compare the administration's 1982-1983 economic forecast with those of CBO and some major private forecasters. Although the administration forecast for 1982 is generally more optimistic than those of the major commercial services, it is similar to that of CBO and the "Blue Chip" consensus of business economists. This similarity ends in 1983, when the administration's real growth is higher and inflation lower than other forecasts, a pattern which continues through 1987 relative to the CBO projections.

The administration and CBO both forecast a moderate recovery from the recession during 1982, with unemployment at the end of the year as high or higher than in the fourth quarter of 1981. Both forecast a sharp break in the inflation rate during the year, with the CPI rising about 6½ percent (fourth quarter to fourth quarter) compared with a 9.4 percent increase during 1981. The major factors holding down price increases appear to be the assumed moderate increases in food and energy prices and lower labor and capital costs arising from lower wage settlements, higher productivity growth, and lower market interest rates.

TABLE 2
COMPARISON OF 1982-1983 ECONOMIC FORECASTS
ADMINISTRATION AND CBO
(percent change)

	Calendar Years				
	Actual 1981	-----Forecast-----			
		1982		1983	
		Admin.	CBO	Admin.	CBO
<u>Fourth Quarter to Fourth Quarter</u>					
Gross national product					
Current dollars	9.3	10.4	10.3	11.0	11.1
Constant (1972) dollars	.7	3.0	2.8	5.2	3.9
GNP deflator	8.6	7.2	7.2	5.5	6.9
Consumer Price Index	9.4	6.6	6.4	5.1	7.2
Unemployment rate (percent, fourth quarter)	8.4	8.4	8.7	7.6	7.6
<u>Annual Averages</u>					
Gross National Product:					
Current dollars					
Level (\$ billion)	2922	3160	3140	3524	3515
Percent change	11.3	8.1	7.5	11.5	11.9
Constant (1972) dollars	1.9	0.2	-0.1	5.2	4.4
GNP deflator	9.1	7.9	7.5	6.0	7.3
Consumer Price Index	10.3	7.3	7.5	6.0	6.9
Unemployment rate (percent)	7.6	8.9	8.9	7.9	8.0
3-month Treasury bill rate (percent)	14.1	11.7	12.0	10.5	13.2

TABLE 3
COMPARISON OF ADMINISTRATION AND CBO 1982-1983
ECONOMIC FORECASTS WITH PRIVATE FORECASTS
(percent change)

	-----1982-----				-----1983-----			
	<u>Admin.</u>	<u>Blue Chip</u>	<u>Commercial Services*</u>	<u>CBO</u>	<u>Admin.</u>	<u>Blue Chip</u>	<u>Commercial Services</u>	<u>CBO</u>
<u>Fourth Quarter to Fourth Quarter</u>								
Gross national product:								
Current dollars	10.4	10.4	9.5	10.3	11.0	11.0	12.1	11.1
Constant (1972) dollars	3.0	3.1	1.7	2.8	5.2	3.9	4.1	3.9
GNP deflator	7.2	7.2	7.6	7.2	5.5	7.1	7.7	6.9
CPI	6.6	7.1	6.9	6.4	5.1	7.1	7.4	7.2
Unemployment rate (percent)	8.4	8.1	9.0	8.7	7.6	7.4	7.9	7.6
<u>Annual Averages</u>								
Gross national product:								
Current dollars	8.1	8.0	7.1	7.5	11.5	11.3	12.1	11.9
Constant (1972) dollars	0.2	0.3	0.7	-0.1	5.2	4.1	4.0	4.4
GNP deflator	7.9	7.7	7.8	7.5	6.0	7.2	7.7	7.3
CPI	7.3	7.8	7.5	7.5	6.0	7.1	7.3	6.9
Unemployment rate (percent)	8.9	8.6	9.1	8.9	7.9	7.8	8.4	8.0
3-month Treasury bill rate (percent)	11.7	10.8	12.4**	12.0	10.5	10.7	12.6**	13.2

* Average of Data Resources, Chase Econometrics, Wharton-EFA, and Townsend-Greenspan

** 3 services

For the years after 1982, the administration has largely maintained its economic "scenario" of last March, projecting rapid real economic growth which is sustained substantially above the economy's potential growth rate through 1987, while inflation falls very sharply in 1983 and 1984 and then somewhat inexplicably levels off at about 4½ percent. Interest rates, as measured by the three-month Treasury bill rate, fall steadily by about 100 basis points per year through 1985, and then by 150 basis points per year in 1986-1987. Table 4 shows the administration's long-term economic projections and those of CBO.

TABLE 4
COMPARISON OF ADMINISTRATION AND CBO LONG-TERM
ECONOMIC PROJECTIONS
(percent change)

		Calendar Years						
		Actual	--Forecast--		-----Projections-----			
		1981	1982	1983	1984	1985	1986	1987
<u>Annual Average</u>								
Gross national product								
Current dollars:		11.3						
Administration			8.1	11.5	10.2	9.7	9.2	9.0
CBO			7.5	11.9	10.4	9.7	9.4	9.1
Constant (1972) dollars		1.9						
Administration			0.2	5.2	5.0	4.7	4.4	4.3
CBO			-0.1	4.4	3.6	3.5	3.5	3.5
GNP deflator		9.1						
Administration			7.9	6.0	5.0	4.7	4.6	4.5
CBO			7.5	7.3	6.6	6.0	5.7	5.4
Consumer Price Index		10.3						
Administration			7.3	6.0	4.6	4.8	4.6	4.5
CBO			7.5	6.9	6.9	6.4	6.0	5.7
Unemployment rate (percent)		7.6						
Administration			8.9	7.9	7.1	6.4	5.8	5.3
CBO			8.9	8.0	7.4	7.2	6.9	6.7
3-month Treasury								
bill rate (percent)		14.1						
Administration			11.7	10.5	9.5	8.5	7.0	5.5
CBO			12.0	13.2	11.3	9.4	8.7	8.1

For 1983 the administration forecasts an acceleration of economic growth to 5.2 percent on a fourth quarter to fourth quarter basis. The inflation rate measured by the CPI falls to 5.1 percent from 6.6 percent during 1982, and the GNP deflator rises 5.5 percent. Unemployment averages 7.9 percent during the year, down from the 8.9 percent of 1982 and falls to 7.6 percent by the fourth quarter. The interest rate on 3-month Treasury bills averages 10.5 percent compared with the 11.7 percent assumed for 1982.

This administration forecast for 1983 has more rapid economic growth with significantly lower inflation than shown by CBO and the commercial forecasts, which have growth at about 4 percent and the CPI rising at rates over 7 percent. The less rapid growth forecast by CBO and private forecasts occurs because of slow export growth due to the relatively high value of the dollar, weaker investment because of higher interest rates which arise from the restrictive monetary policy, and stagnation in State and local real spending partly as a result of cuts in Federal grants-in-aid. Inflation picks up after 1982 in the CBO and commercial forecasts as oil prices increase faster than other prices and little additional progress is made in lowering labor and capital costs during the recovery.

In the outyears, the administration projects real GNP growth to average 4.6 percent between 1984 and 1987. Inflation declines only modestly from the optimistic 1983 rate. The CBO projections assume about 1 percent per year less real growth and about 1 percent per year higher inflation, and unemployment and interest rates are correspondingly higher than in the administration projections.

Consistency in the Administration Forecast

The 1984-1987 economic projections made by the administration and CBO show similar increases in current dollar GNP, but a sharp difference in the composition of current dollar GNP growth between real growth and inflation. The CBO projections illuminate the central dilemma of the administration's stimulative fiscal policy colliding with a restrictive monetary policy. In the CBO projections underlying inflationary momentum is stronger than assumed by the administration. This exacerbates the policy collision, resulting in higher interest rates (both nominal and real), which depress business and residential investment and consequently cause slower real growth.

Viewed in this context, the rapid real growth projected by the administration appears to be inconsistent with its projected interest rates and its long-term monetary policy targets. The monetary policy goals stated in February 1981 recommended that the growth rates of money and credit be steadily reduced from the 1980 levels to one-half those levels by 1986. The administration has not indicated any revision in those targets. The current interest rate projections are somewhat more consistent with that policy than those projected last year; the Treasury bill rate averaged 7.1 percent between 1982 and 1986 in the March assumptions, but now is projected to average 9.4 percent. Nevertheless, the substantial and continued reduction in interest rates still appears to be inconsistent with either the money growth targets, the strong real GNP growth, or both.

These higher nominal interest rates with rapidly falling inflation imply real (inflation adjusted) interest rates which are much higher than in the March, 1981 projections and well above historical averages through 1985. (In fact, real interest rates are higher in 1983 and 1984 than in 1982.) This is a change in the right direction in light of the tight monetary policy. However, the response of business investment to the investment incentives in the ERTA must be assumed to be extraordinarily high to produce the projected rapid real growth in the face of these high real interest rates. Otherwise, it would appear that Federal deficits will crowd out housing and business investment through high interest rates.

The central dilemma of the administration's supply-side scenario has apparently not been resolved. If monetary policy remains as restrictive as recommended by the administration, high real interest rates are likely to hold economic growth below the optimistic rates projected. On the other hand, if monetary growth is accelerated beyond the current targets, the rapid decline in inflation and interest rates projected by the administration is unlikely to occur.

IV. FISCAL POLICY AND THE DEFICIT

The budget message of the President states: "The Nation's fiscal policy is now embarked on a new, sound and sustainable course." According to the administration, the projected deficits of \$99 billion in 1982 declining to \$72 billion by 1985 are primarily the result of the current recession, "past fiscal, monetary, and credit excesses," which have raised interest rate projections, the administration's success in bringing down the rate of inflation, and Congress's failure to adopt all the administration's proposals. The administration's tax and defense program are not mentioned as sources of the deficit.

The administration adds that deficits must be seen in perspective. The deficit is argued to be small in relation to the economy; for example the 1976 deficit of \$66 billion, adjusted to present GNP, would be \$139 billion. In addition, the administration claims that the "expansion of the total savings supply will increase our capacity to absorb deficits and give us additional time to work toward their elimination." Nevertheless, the administration concludes that continuing, high Federal deficits are "troublesome," and that "constant vigilance and relentless efforts to pare back future spending and borrowing will be imperative to ensure that they are not permitted to worsen and add further pressure to financial markets and interest rates."

In a departure from the practice of previous administrations, this administration has not included in its budget an estimate of the "high-employment" budget, a measure of the degree of stimulus embodied in fiscal policy. The ordinary unified budget is not as good an indicator of fiscal policy as the high-employment budget because budget revenues and outlays are very sensitive to the level of economic activity. A stronger economy produces higher tax receipts and reduced outlays for programs sensitive to the unemployment rate and a correspondingly lower deficit. Conversely, the budget deficit is higher during periods of economic weakness. That part of an increase in the deficit resulting from weakened economic activity, as opposed to changes in tax and spending policies, does not represent a more stimulative fiscal policy.

The high-employment budget estimates revenues and expenditures at a constant unemployment rate (here assumed to be 6 percent) associated with a relatively high level of economic activity. By estimating the budget at a high level of economic activity, the high-employment budget removes the shortfall in revenues and additions to outlays attributable to a weak economy, i.e., to the reduced level of economic activity below that which would exist at a 6 percent unemployment rate. It thereby isolates the "structural" component of the deficit that would remain even if the economy were operating at this relatively high level of activity.

The administration's budget and an estimate of this budget on a high-employment basis, are shown in the table below. Both ordinary and high employment budgets are shown on two sets of assumptions. The first set assumes that all spending cuts and revenue increases proposed in the 1983 budget are enacted. The second set uses the administration's current services budget with "adequate defense." Both sets use the administration's inflation, interest rate, and technical estimating assumptions, and, judging by recent experience, may therefore be quite optimistic.

TABLE 1

Unified and High Employment Budget Deficits

(Fiscal Years, billions of dollars)

	Actual	-----Projected-----					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
<u>Unified Budget Deficit</u>							
Current Services (with "adequate defense")	-57.9	-101.2	-145.6	-164.8	-168	-175.4	-174.9
Percent of GNP	-2.0	-3.3	-4.2	-4.3	-4.0	-3.9	-3.5
Administration budget	-57.9	-98.6	-91.5	-82.9	-71.9	-66.0	-53.2
Percent of GNP	-2.0	-3.2	-2.7	-2.2	-1.7	-1.5	-1.1
<u>High Employment Budget Deficit</u>							
Current Services (with "adequate defense")	-24.9	-27.9	-88.0	-128.3	-151.6	-178.9	-199.2
Percent of GNP	-0.9	-0.9	-2.6	-3.4	-3.6	-3.9	-4.0
Administration budget	-24.9	-25.1	-32.9	-45.6	-55.2	-69.6	-77.8
Percent of GNP	-0.9	-0.8	-1.0	-1.2	-1.3	-1.5	-1.6

As the high-employment budget estimates show, fiscal policy becomes increasingly stimulative year by year under either set of assumptions. In 1982 about 75 percent of the deficit under either set of assumptions is attributable to economic activity below potential; the \$98.6 billion deficit projected by the administration would be about \$25.1 billion at a 6 percent unemployment rate. The remaining 25 percent can be considered "structural."

However, in succeeding years the situation changes drastically. By 1985, 90 percent of the deficit under the current services assumption and 77 percent under the administration's proposal is structural and not attributable to an economy operating below potential. The table indicates that the structural component of the deficit continues to grow through 1987, both absolutely and as a percentage of GNP, under either set of assumptions.

These large and growing high-employment deficits have serious economic implications. In the past, such stimulative fiscal policy in an economy near high employment has added inflationary pressure to the economy, and the present very high interest rates no doubt reflect a fear that these extraordinarily large deficits will be monetized in the future, thereby raising inflation and interest rates.

However, under the restrictive long-term monetary policy advocated by the administration, stimulative fiscal policy will have different consequences. Instead of principally producing more rapid growth and higher inflation, stimulative fiscal policy will clash with restrictive monetary policy to produce high interest rates, which have the effect of depressing the economy while fiscal policy is stimulating it. These high interest rates may crowd out private investment, even if economic resources are not fully employed, and reduce long-term growth. Lower investment will, in turn, impede progress in raising productivity and ending stagflation. It appears likely that the expectation of persistent and growing high-employment deficits (rather than "past excesses") has badly shaken market confidence and led to record long-term interest rates even in the midst of severe recession.

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V. REVENUE AND TAX PROPOSALS

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUESTABLE 1
REVENUES
(Dollars in billions)

	Actual 1981	1982	1983	1984	1985 b/	1986 b/	1987 b/
<u>ADMINISTRATION</u>							
Current Services Revenues ^{a/}	599.3	626.4	653.3	703.8	778.3	843.3	906.7
Proposals and Administrative Actions	...	.3	12.8	19.2	18.3	17.7	19.0
Proposed Revenues	599.3	626.8	666.1	723.0	796.6	861.0	925.7
<u>CBO</u>							
Current Services Revenues	602.6	631.3	651.6	701.1	763.1	817.9	881.9

a/ Administration estimates have reclassified SMI insurance premiums and certain HI premiums from receipts to offsetting receipts against outlays.

b/ Figures include extension of highway trust fund taxes in 1985-1987.

HIGHLIGHTS

Total budget revenues are proposed in the administration budget at \$666.1 billion in fiscal year 1983, an increase of \$39 billion or 6.2 percent over the administration's estimate of fiscal year 1982 receipts. The Congressional Budget Office has estimated fiscal year 1983 receipts at \$651.6 billion, \$1.7 billion lower than the administration estimates of current services revenues. This difference, and larger differences in current services receipts in 1984-1987, may be attributed largely to differences in economic assumptions.

Total receipts by source are shown for 1981, 1982 and 1983.

TABLE 2
RECEIPTS BY SOURCE
(Dollars in billions)

	-----Fiscal Years-----					
	Actual		Estimates			
	1981		1982		1983	
	Admin.	CBO	Admin.	CBO	Admin.	CBO
Individual income taxes ^{a/}	285.9	285.6	298.6	299.9	304.5	302.7
Corporate income taxes	61.1	61.1	46.8	50.4	65.3	50.7
Social insurance taxes ^{a/}	182.7	186.4	206.5	208.9	222.5	227.4
Excise taxes	40.8	40.8	43.0	41.4	41.7	39.8
Estate and gift taxes	6.8	6.8	7.2	7.2	5.9	5.9
Customs duties	8.1	8.1	8.9	8.6	9.4	9.0
Miscellaneous receipts	13.8	13.8	15.9	14.9	16.8	16.1
Total	599.3	602.6	626.8	631.3	666.1	651.6

^{a/} Administration estimates have reclassified SMI insurance premiums and certain HI premiums from receipts to offsetting receipts against outlays.

Individual income taxes are projected by the administration to increase \$5.9 billion, to \$304.5 billion for fiscal year 1983.

Corporate income taxes are projected by the administration to increase by 40 percent to \$65.3 billion for fiscal year 1983. CBO projects a more modest increase of 0.5 percent to \$50.7 billion.

Social insurance taxes are projected by the administration to increase \$16 billion to \$222.5 billion for fiscal year 1983.

Individual income taxes are projected by the administration to supply 46 percent of total revenues, social insurance taxes 33 percent of total revenues, and corporate income taxes 10 percent. Other taxes including excise taxes, estate and gift taxes, customs duties, and miscellaneous taxes make up the remaining 11 percent.

TABLE 3
EFFECT ON RECEIPTS OF THE ECONOMIC RECOVERY TAX ACT OF 1981
(Dollars in billions)

	-----Fiscal Years-----							
	1982		1983		1984		1985	
	Admin.	CBO	Admin.	CBO	Admin.	CBO	Admin.	CBO
Individual income taxes	-28.2	-27.5	-75.4	-74.2	-113.1	-117.8	-137.6	-147.1
Corporate Income taxes	-9.3	-10.2	-13.1	-17.7	-21.6	-25.4	-33.1	-35.8
Social Insurance taxes	+4	+4	+5	+5	+6	+5	+6	+5
Excise taxes	-.9	-1.5	-1.2	-1.2	-1.2	-1.3	-1.9	-2.2
Estate and gift tax provisions	-.2	-.2	-2.3	-2.3	-3.6	-3.6	-4.6	-4.7
Total	-38.3	-39.0	-91.6	-95.0	-139.0	-147.6	-176.7	-189.2

The administration estimates that the effect on receipts of the Economic Recovery Tax Act of 1981 will be to reduce revenues by \$91.6 billion in 1983, \$139.0 billion in 1984 and \$176.7 billion in 1985. Differences between administration and CBO estimates are due largely to differences in economic assumptions, particularly with respect to inflation.

Most of this reduction is due to a 23 percent cut in individual income tax rates, currently scheduled to be phased in over a 3-year period, and the Accelerated Cost Recovery System of business depreciation.

TABLE 4
PROPOSED REVENUE CHANGES
(Dollars in billions)

	-----Fiscal Years-----		
	<u>1983</u>	<u>1984</u>	<u>1985</u>
Tax revisions	7.2	13.5	13.5
Improved tax collection and enforcement	5.5	5.5	4.7
Enterprise zone tax incentives	--	-.1	-.5
Airport and airway trust fund taxes	1.2	1.4	1.5
Federal employee hospital insurance taxes	.6	.8	.9
Railroad retirement	-1.7	-1.8	-1.9
Other	.1	.1	.1
Total Proposed Revenue Changes	12.8	19.2	22.5

The administration has proposed a number of revenue changes, including tax revisions, increased user fees, and improved tax collection and enforcement. The proposed revenue changes are estimated to increase receipts by \$12.8 billion in fiscal year 1983, \$19.2 billion in fiscal year 1984 and \$22.5 billion in fiscal year 1985.

The major new tax initiatives in terms of breaking new ground are: The Enterprise Zone tax incentives, and the Federalism initiative, which provides for the eventual transfer of revenue sources to states and localities as they assume responsibility for programs that are now administered and funded by the Federal Government. During 1984-1987 some existing excise taxes would be dedicated to a special fund; the establishment of this fund would have no effect on Federal receipts, but these receipts would not be available for Federal purposes.

Enterprise Zones

The administration will propose, effective January 1, 1984, an Enterprise Zone program that would provide businesses and individuals locating in designated areas with special tax incentives and regulatory exemptions designed to encourage investment. Over a 3-year period, up to 25 small urban areas per year may be designated as enterprise zones, to a maximum of no more than 75 at any one time, and would be targeted at an estimated program cost of \$9 million to \$13 million per zone.

While no specific administration proposal is yet available, recent reports indicate that Federal tax incentives will be central to the proposal. They may include a 3 percent credit on property depreciable in 3 years; a 5 percent credit on property depreciable in 5 years; and a 10 percent credit for the construction or rehabilitation of commercial, industrial, or rental buildings. Capital gains taxes would be abolished in the zones and firms would be allowed an operating loss carryover for 15 years or the life of the zone. Employers would receive a 50 percent credit based on salaries to employees who are qualified for the CETA program, and a 10 percent credit, up

to \$15,000, on wages paid to other employees. Industrial development bonds could be issued for firms in the zones, and the zones would be designated as foreign trade zones whenever possible. Federal agencies would have the authority to suspend regulations at the request of State or local governments. Selection of communities to be designated as zones may favor those communities that have abolished rent control, local or State minimum wage standards, State usury laws and zoning requirements, but this characteristic of the program appears to be very controversial.

The administration estimates that adoption of the Enterprise Zones proposal would reduce revenues by \$0.1 billion in 1984 and \$0.5 billion in 1985.

Federalism Initiative

The administration proposes, effective fiscal year 1984, earmarking existing alcohol, tobacco and telephone excise taxes, 2 cents of the gasoline tax and a portion of the windfall profits tax on oil to a new \$28 billion Federalism trust fund that will belong to the States. In 1988, the excise taxes will start to phase out at 25 percent a year and will terminate in 1991. The States will be free to impose the same taxes to fund their new program responsibilities.

Tax Revisions

Completed Contract Method of Accounting

The administration proposes to discontinue effective January 1, 1983 current regulations which permit Government contractors to defer tax on income from long-term contracts until the contract is completed, regardless of whether income is received during the term of the contract. Instead contractors will have to use either the percentage of completion or the progress payment method of accounting. This is estimated to increase revenues by \$3.3 billion in 1983, \$5.0 billion in 1984, and \$3.2 billion in 1985.

Business Energy Tax Credits

The administration proposes to repeal all business energy tax subsidies effective January 1, 1983. The administration has also proposed to repeal the excise tax exemption for gasoline and provisions allowing States and localities to issue tax exempt industrial development bonds to finance certain energy property. This is estimated to increase revenues by \$.1 billion in 1983, \$.4 billion in 1984 and \$.6 billion in 1985.

Tax Exempt Revenue Bonds

The administration proposes that assets financed with tax-exempt revenue bonds issued after 1982 must be depreciated using the straightline method, rather than any accelerated method. Such bond issues must be publicly approved, will not be available to large corporations in small issues, and after 1985, must involve the full faith and credit of the local government issuing them. This is estimated to decrease revenues by \$0.2 billion in 1983, and increase revenues by \$0.3 billion in 1984 and \$1.1 billion in 1985.

Modified Coinsurance

The administration proposes to eliminate the option currently available to insurance companies of entering into modified coinsurance arrangements which result in treating investment income as underwriting income and hence subject to a maximum tax of 23 percent instead of 46 percent. This is estimated to increase revenues by \$1.1 billion in 1983, \$2.2 billion in 1984 and \$2.5 billion in 1985.

Corporate Construction Interest and Taxes

The administration proposes that interest and taxes incurred by corporations in the course of developing nonresidential real property be amortized over 10 years as is the case with individual taxpayers. This is estimated to increase revenues by \$0.5 billion in 1983, \$1.1 billion in 1984 and \$1.0 billion in 1985.

Minimum Tax on Corporations

The administration proposes, effective January 1, 1983, replacing the current add-on minimum tax for corporations with an alternative minimum tax of 15 percent. The preference items subject to this tax have not been specified. The tax is estimated to increase revenues by \$2.3 billion in 1983, \$4.6 billion in 1984 and \$5.1 billion in 1985.

Improved Tax Collection and Enforcement

Withholding on Interest and Dividends

The administration proposes withholding on taxes owed on dividends and interest effective January 1, 1983, at the rate of 5 percent. Corporations and tax exempt individuals as well as taxpayers over 65 with a tax liability of \$500 or less would be exempt. This is estimated to increase revenues by \$2.0 billion in 1983, \$1.3 billion in 1984 and \$1.4 billion in 1985.

Acceleration of Corporate Income Tax Payments

The administration proposes for tax years after 1982 that corporations pay in estimated taxes at least 90 percent of the current year's final tax liability (up from 80 percent) and that all remaining liability be paid in one payment on the 15 day of the third month following the close of the tax year. This is estimated to increase revenues by \$1.4 billion in 1983, \$1.7 billion in 1984, and \$0.9 billion in 1985.

Increases in IRS Staff

In addition, the administration proposes to increase IRS staff by more than 3,300 persons to improve enforcement and collection activities. This is estimated to increase revenues by \$2.1 billion in 1983, and by \$2.4 billion in both 1984 and 1985. The increase in IRS staff would involve outlay increases of \$400 million in 1983, \$387 million in 1984, and \$359 million in 1985.

User Fees

Airport and Airway Trust Fund

A major interest of the administration continues to be a greater reliance on user fees to pay for related Federal services. Only a few of these fees are classified as revenues. This year the administration continues to press for more revenues for the airport and airway trust fund through a series of increased taxes, changed in some detail from last year's unsuccessful recommendations. They are as follows:

- Passenger ticket tax to increase from 5 percent to 8 percent - July 1, 1982
- General aviation gasoline tax to increase from 4 cents to 12 cents per gallon on July 1, 1982, to 14 cents on October 1, 1983 and annual increases to 20 cents on October 1, 1986
- A new general aviation jet fuel tax rising annually from 14 cents a gallon on July 1, 1982, to 22 cents per gallon on October 1, 1986.
- Reinstate the freight way bill tax at 5 percent.
- Reinstate an international departure tax of \$3.00.

These changes would increase receipts by \$1.2 billion in 1983, \$1.4 billion in 1984, and \$1.5 billion in 1985.

Highway Trust Fund

The administration also proposes extending the current 4 cents per gallon tax on gasoline and diesel fuels for the Highway Trust Fund at that level beyond the current expiration date of 1984. This is estimated to increase 1985 revenues by \$4.2 billion.

Passport and Visa Fees

The administration proposes increasing passport and visa fees through both legislative and administrative action. This is estimated to increase revenues by \$.1 billion in 1983, 1984, and 1985.

Social Security Changes

Railroad Retirement System

The administration proposes effective October 1, 1982, extending full social security coverage to railroad workers and returning the rail industry's

plan to the private sector. This would reduce revenues in 1983 by \$1.7 billion, by \$1.8 billion in 1984 and by \$1.9 billion in 1985.

Social Security Hospital Insurance for Federal Employees

The administration proposes that all Federal employees be required to pay the employee portion of the social security hospital taxes, effective January 1, 1983. This would increase revenues \$0.6 billion in 1983, \$0.8 billion in 1984 and \$0.9 billion in 1985.

VI. CONGRESSIONAL ACTION ON PRESIDENT'S PROGRAM IN 1982

The Congress supported the administration's economic recovery program virtually in total and that program is firmly in place. Both the first and second budget resolutions incorporated the administration's plan and were based on the same economic assumptions, with only slight modification, as those presented in the administration's budget.

On August 13, 1981, the Economic Recovery Tax Act of 1981 was enacted, providing for revenue reductions of \$38.3 billion in fiscal year 1982, \$91.6 billion in fiscal year 1983, \$139.0 billion in fiscal year 1984, and \$176.7 billion in fiscal year 1985.

On August 13, 1981, the Omnibus Budget Reconciliation Act of 1981 was enacted. This Act resulted in reductions in Federal spending of \$35.2 billion in fiscal year 1982, \$44.0 billion in fiscal year 1983, and \$51.4 billion in fiscal year 1984.

In other spending actions, such as the Rescission bill of fiscal year 1981, the Continuing Resolution for Fiscal Year 1982, and Farm and Dairy Price Support bills for fiscal years 1981 and 1982, the administration achieved substantially what it had requested.

The \$215.8 billion provided by Congress for National Defense programs gave the President virtually everything requested in the administration's September, 1981 budget estimate of \$218.2 billion. The President's current fiscal year 1982 National Defense estimate of \$218.9 billion includes a supplemental request of \$2.6 billion, which Congress has not yet reviewed.

Of the four major components of the administration's economic recovery program, Congress complied with action on taxes and spending. The other two components, regulatory reform and tight money policy, have also been in effect. The Federal Reserve Board has followed, throughout the administration's tenure in office, a restrictive money supply policy and the President, by Executive Order, has placed a freeze on all new regulations.

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VII. RESTRUCTURING THE FEDERAL BUDGET

A. The Administration's Multiyear Blueprint

The administration's 1983 budget is a blueprint for the restructuring of the Federal Government and more importantly a redefinition of the Federal role. The 1983 budget continues and expands this redirection which began in 1982. The administration states that one of the fundamental changes will be "a rational and lean realignment of domestic programs, combined with an adequate defense force".

For example, as the following table illustrates in the years ahead (for budget purposes, 1983-87) growth will be limited primarily to defense, social security, and medical care. In 1981, these activities accounted for \$357 billion, or after interest costs are excluded, 62 percent of Federal outlays. According to the administration's blueprint in 1987, after interest costs are excluded, spending for defense, social security and medical care will account for about 82 percent of Federal spending.

Taken a different way, in 1981 according to the administration's calculations, \$357 billion was spent by the Federal Government for defense, social security, and medical care. If interest payments are excluded, this means that \$218 billion was spent for all other Federal commitments. By fiscal year 1987, according to the administration's blueprint, \$158 billion of Federal funds will be available for all other Federal commitments. By all other Federal commitments we mean any activity other than defense, social security, and medical care. These activities include education, transportation, agriculture, nutrition programs, energy, veterans programs, law enforcement, welfare, unemployment and training and a large number of others.

The administration's blueprint stands in stark contrast to estimates prepared by the Congressional Budget Office. If defense, social security, medical care and interest payments are excluded, CBO estimates that \$294.8 billion would be available for all other Federal commitments in fiscal year 1987.

(In billions of dollars)

	Fiscal Year 1981		Fiscal Year 1983		Fiscal Year 1987	
	Admin.	CBO	Admin.	CBO	Admin.	CBO
Total Budget Outlays	657.2	660.0	757.6	809.0	978.9	1130.0
Less Interest Payments	-82.5	-82.5	-112.5	-127.0	-116.7	-205.0
Adjusted Total Outlays	(574.7)	(577.50)	(645.3)	(682.0)	(862.2)	(925.0)
Outlays for Defense, Medical, Social Security*	(357.0)	(360.3)	(467.0)	(495.4)	(704.0)	(630.2)
Percentage of Defense, Medical, and Social Security of Adjusted Total	62%	62%	72%	72%	82%	68%
Outlays Available for All Other Federal Commitments	(217)	(217)	(178.3)	(186.6)	(158.2)	(294.8)

(*CBO -- Medicare, Medicaid, Defense, Social Security; adjusted for Medicare premiums and collections which were treated as a revenue in prior years.)

As the budget message points out, if the administration's shift is implemented by the Congress, "Other Federal budget commitments must be steadily reduced if fiscal balance is to be achieved."

The effects of this shift are even more pronounced when projected real growth rates are considered. For example, between fiscal year 1982 and fiscal year 1983 real budget resources for defense will grow by 10.3 percent while grants to States and local governments such as in education, UDAG, Community Development Block grants, etc. and funds for other Federal Government operations such as the FBI, National Parks, biomedical research, and civil rights enforcement will experience a drop in real budget resources of over 30 percent.

The following chart further highlights this shift in Federal outlays. By fiscal year 1987 defense outlays as a percentage of total outlays will grow to 37 percent from 23 percent in fiscal year 1980. The health function and the interest function increase slightly by this measure, while income security remains constant over the projection period at 33 percent. All other functions experience reductions.

Functional Outlays as a Percentage of
Total Outlays
Fiscal Year 1980 Vs. Fiscal Year 1987 Projected

	<u>FY 1980</u>	<u>FY 1983</u>	<u>FY 1987</u>
	(In percent)		
Defense	23	29.2	37.2
International Affairs	1.8	1.6	1.2
General Science, Space and Technology	1.0	1.0	.6
Energy	1.0	0.6	.4
Natural Resources and Environment	2.3	1.3	.6
Agriculture	.8	0.6	.3
Commerce and Housing Credit	1.3	0.2	.1
Transportation	3.6	2.6	2.0
Community and Regional Development	1.7	1.0	.7
Education, Training, Employment and Social Services	5.2	2.9	1.7
Health	10.0	10.3	11.4
Income Security	33.3	34.5	33.0
Veterans Benefits and Services	3.6	3.2	3.0
Administration of Justice	.8	0.6	.5
General Government	.8	0.7	.5
General Purpose Fiscal Assistance	1.5	0.9	.8
Interest	11.0	14.8	12.0
Allowances	...	-0.2	0.1
Undistributed Offsetting Receipts	-3.8	-5.7	-6.0

Analysis of the administration's budget in real percent change in Federal expenditures for defense, payment to individuals, net interest, grants, and Federal operations is still another way of showing the dramatic shift in spending priorities that is being proposed and implemented by the administration. For example, in national defense, expenditures averaged a -0.6 percent of real growth in the years 1972-80. Under the administration's plan, defense expenditures will realize an average 8 percent real growth from 1980 to 1985.

This compares to average real percentage growth in payments for individuals of 6.5 percent from 1972 to 1980, declining to a 2 percent real average growth from 1980 to 1985.

The following two tables reveal the previous, existing, and expected trends embraced by the administration.

Real Percent Change - Average

<u>Fiscal Year</u>	<u>National Defense</u>	<u>Payments for Individuals</u>	<u>Net Interest</u>	<u>Grants and Federal Operations</u>	<u>Total</u>
(Average 1972-80)	(-0.6)	(+6.5)	(+8.2)	(+3.6)	(+4.0)
(Average 1980-85)	(+8.0)	(+2.0)	(+6.7)	(-17.1)	(+1.4)

Year-By-Year Real Percent Change

<u>Fiscal Year</u>	<u>National Defense</u>	<u>Payments for Individuals</u>	<u>Net Interest</u>	<u>Grants and Federal Operations</u>	<u>Total</u>
1973	-8.8	+8.0	+7.1	+1.3	+1.0
1974	-2.6	+6.5	+15.7	-7.0	+1.6
1975	+0.6	+16.7	-1.6	+13.7	+10.0
1976	-2.2	+10.7	+7.4	+2.3	+5.5
1977	+0.6	+1.8	+4.9	+4.4	+2.2
1978	+0.6	+0.9	+10.8	+17.2	+4.8
1979	+3.8	+1.6	+11.0	-5.1	+1.4
1980	+3.8	+8.3	+13.4	+5.1	+7.1
1981	+4.8	+7.2	+19.5	-14.2	+3.5
1982	+7.8	+3.1	+11.5	-13.8	+2.3
1983	+10.3	-2.0	+9.1	-32.8	-2.0
1984	+7.9	+0.6	-2.6	-12.3	+0.9
1985	+9.4	+1.5	-2.4	-10.0	+2.4

As part of the administration's plan for the redirection of Federal resources a dramatic shift is proposed in the role of the Federal Government and the States. This change begins in fiscal year 1984 and is covered in more detail in the section of this document on "New Federalism".

VII. RESTRUCTURING THE FEDERAL BUDGET

B. Increase In Defense Spending

The President's request for the National Defense function for fiscal year 1983 continues the extraordinary funding build-up reflected in fiscal year 1981 and 1982. Total defense budget authority in fiscal year 1983 is \$263.0 billion as compared with the fiscal year 1980 level of \$145.8 billion. The cumulative funding for 2 fiscal years 1981 and 1982 is \$401.3 billion compared to the cumulative funding for 3 fiscal years 1978, 1979, 1980 of \$391.5 billion. For 5 years 1983, 1984, 1985, 1986, and 1987, the National Defense budget is projected by the Administration to total \$1.675 trillion.

The following displays the growth of defense programs and their relationship to the total Federal budget and the gross national product based on the administration's data and assumptions:

• Real Growth (Budget Authority)

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
3.2%	12.4%	10.4%	13.2%	4.6%	10.4%

• Nominal Growth (Budget Authority)

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
14.0%	25.1%	20.0%	20.2%	10.6%	16.1%

• National Defense as Percentage of Gross National Product

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
5.3%	5.6%	6.1%	6.4%	6.7%	7.0%

• National Defense as Percentage of Federal Budget (Outlays)

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
23.6%	24.3%	25.9%	29.2%	31.4%	33.7%

In order to evaluate properly these increases, the following displays the President's request by function and title for fiscal years 1980-83 and 1987.

• Budget Authority by Function and Title

	<u>1980</u>	<u>(In billions of dollars)</u>			
		<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1987</u>
Military Personnel	31.0	36.9	38.5	44.9	49.7
Retired Military Personnel	12.0	13.8	15.0	16.5	21.1
Operations and Maintenance	46.4	55.5	62.3	69.4	98.7
Procurement	35.3	48.0	65.7	89.5	155.1

	(In billions of dollars)				
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1987</u>
Research, Development Test and Evaluation	13.6	16.6	20.1	24.3	37.0
Military Construction	2.3	3.4	5.0	5.4	12.3
All Other	2.0	4.2	7.5	7.5	26.0
Total (Function 051)	(142.6)	(178.4)	(214.1)	(257.5)	(399.9)
Atomic Energy Defense Activities (Function 053)	3.0	3.6	4.7	5.5	7.9
Defense Related Activities (Function 054)	.2	.4	.1	*	.5
TOTAL National Defense (Function 050)	145.8	182.4	218.9	263.0	408.4

* Less than \$100 million

The data indicate that the proposed increases in funding are being directed primarily toward weapons systems procurement and development which totaled \$48.9 billion in fiscal year 1980 and is proposed to grow to a total of \$192.1 billion in fiscal year 1987. This represents an increase of 293% in weapon systems funding for fiscal year 1987 over fiscal year 1980. This increase is primarily due to higher quantity procurement of current weapons systems and added funding for programs such as the MX missile system funded at \$4.5 billion in fiscal year 1983, the B-1 bomber funded at \$4.8 billion in fiscal year 1983 and naval vessels which total \$18.7 billion in fiscal year 1983. The outyear data on these systems are not known at this time. However, based on administration pronouncements, these programs are anticipated to show significant growth in all of the outyears.

The original fiscal year 1982 budget presented by the administration in March 1981 provided for budget authority of \$226.25 billion. Subsequent actions by the administration reduced the fiscal year 1982 budget request in July 1981 to \$225.7 billion and in September 1981 to \$218.2 billion. Congressional action on the fiscal year budget provided a level of \$215.8 billion in budget authority. This is the largest peacetime increase in our history. The fiscal year 1983 budget submission now includes a fiscal year 1982 program supplemental request of \$2.6 billion.

The administration characterizes the fiscal year 1982 supplemental as being required due to "higher than anticipated inflation." The request, however, not only covers higher inflation but adds funding for programs such as: the Advanced Ballistic Reentry Vehicle for the MX, construction for the

Rapid Deployment Force, purchase of two KC-10 tanker/cargo aircraft, long lead funding for two C-5 aircraft, production of components of the M-1 tank, additional procurement of bulk fuel for storage, additional real property maintenance, and additional funds to correct the administration's underfunding in fiscal year 1982 in the Shipbuilding and Conversion Navy appropriation.

VII. C. Entitlement Reductions

The President's budget proposes outlay reductions of approximately \$1.5 billion in fiscal year 1982 and \$12 billion in fiscal year 1983 in entitlement programs other than social security. The budget projects savings of over \$50 billion over the next 3 years, with the assumption that proposed amendments are enacted and program objectives are fully achieved. The entitlement reductions would result from stricter eligibility and benefit determinations, improved error rates, and termination or reduction of benefits in approximately 20 Federal programs. The greatest proposed savings would result from large reductions in the "safety net" programs, medicare and medicaid, food and nutrition programs, AFDC, as well as guaranteed student loans, and civil service and military retirement cost-of-living adjustments (COLA).

Major Program	Outlay Savings in Millions					Cumulative
	1982	1983	1984	1985	1982-85	
<u>Food Stamps</u>	273	2,258	2,375	2,502	7,408	
• Count low-income energy assistance as income.						
• Eliminate earnings disregards.						
• Increase benefit reduction rate from earnings.						
• Impose job search requirement.						
• Round benefits down to nearest dollar.						
• Eliminate benefits under \$10 per month.						
<u>Child Nutrition</u>	...	307	392	464	1,163	
• End summer food program.						
• Convert school breakfast and child care food program subsidies to block grant.						
• Terminate Federal grants for nutrition education.						
• Terminate special milk program.						
<u>Aid to Families with Dependent Children(AFDC)</u> ..	166	1,155	1,066	1,115	3,502	
• Impose work requirements.						
• Tighten eligibility and income rules.						
<u>Child Support Program</u>	35	145	151	159	490	
<u>Medicaid</u>	278	1,983	2,332	3,745	8,338	
• Reduce Federal matching for optional services and beneficiaries.		(600)				
• Establish copayments.		(329)				
• Allow States to recover costs from beneficiaries' estates and heirs.		(283)				
• Establish a combined welfare administration.		218				
• Eliminate Federal matching for State Medicare buy-in.		(203)				
• Other		(568)				
<u>Medicare</u>	320	2,472	5,131	7,809	15,732	
• Improve market forces in health care industry.						
• Institute copayments for home health care.		(35)				
• Require Federal workers to pay HI.		(619 revenue increase)				
• Make medicare coverage secondary to private insurance for the working aged.		(306)				
• Reduce the rate of increase of hospital reimbursement by 2 percent.		(653)				

Medicare(continued)

- Reduce reimbursement for physicians in hospital outpatient departments. (160)
- Establish prospective reimbursement rates for renal dialysis services. (130)
- Revise radiology-pathology reimbursement. (160)
- Establish medicare eligibility at the beginning of the first full month after attaining age 65. (145)
- Establish targets to reduce unnecessary use of hospital and medical care. (372)
- Index the SMI deductible. (65)
- Update medicare physician fee limits on Oct. 1. (210)
- Other (187)

Supplemental Security Income(SSI)..... 100 286 489 708 1,583

- Prorate the first month's benefit from the date of application.
- Restrict the definition of disability.
- Eliminate the \$20 income disregard.
- Recover overpayments from social security benefits.
- Continue to phase out hold harmless payments.

Combined Welfare Administration 307 407 580 1,294

- The Combined Welfare Administration(CWA) will provide combined funding to states for the administrative expenses of food stamps, medicaid, and AFDC at 95% of the Federal share of 1982 ongoing expenses.

Unemployment Benefits..... 32 149 145 125 451

- Eliminate Trade Adjustment(TAA) weekly cash benefits on July 1, 1982, for all but those already on rolls. (26) (108) (81) (65) (230)
- Further limit ex-service personnel's eligibility for unemployment compensation.

Federal Employee Injury Compensation..... 116 167 180 463

- Change compensation to a formula based on 80% of take-home pay.
- Limit cost-of-living adjustments.
- Other

Guaranteed Student Loans(GSL)..... 232 762 1,108 1,445 3,547

- Increase "origination fee" charged on new loans from 5% to 10%.
- Impose more stringent income tests.
- Increase insurance premiums on GSLs.
- Other

Civil Service Retirement..... 24 489 1,099 1,458 3,070

- Limit COLAs to the lesser of the increase in the CPI or the annual increase in General Schedule pay for Federal employees. Annuitants whose retirement pay is 120% or more of the annuity of current retirees with the same grade/step and length of service would not receive a COLA. If the annuity is more than 100% but less than 120%, the COLA would be 75% of the proposed COLA.

<u>Military Retirement</u>	...	89	190	257	536
● Cost-of-living adjustments(COLA) would be limited to the lesser of the increase in the CPI or the annual increase in basic pay for military personnel. Changes similar to those for civil service retirees are also proposed for military retirees.					
<u>Railroad Retirement, Unemployment, Sickness Insurance</u> ...		248*	374*	502*	1,124*
● Reorganize RRB, restoring the rail industry's pension to the private sector. Provide social insurance from social security program and regular state unemployment programs.					
<u>Veterans' Compensation</u>	1	146	432	448	1,027
● Eliminate unemployability payment for veterans who are also beneficiaries of other Federal disability or retirement programs. (Effec. 10/1/83) ● Terminate dependents' allowances for veterans with disabilities rated less than 50 percent. ● Delay benefit payment until first full month of entitlement.					
<u>Veterans' Pensions</u>	...	62	60	58	180
● Eliminate adult student benefits provided to veterans' dependents, making it policy consistent with termination last year of similar social security benefits. ● Delay benefit payment until first full month of entitlement, and round benefits down to lower dollar.					
<u>Welfare Program Errors</u>	...	(908)	(854)	(1,063)	(2,825)
● States will be made fiscally responsible for payment errors over the next 4 years. The maximum allowable error rate for federally financed payments would be 3% in 1983 and decline to 1% for 1985. Beginning in 1986, no Federal matching would be provided for any erroneous payments in AFDC, medicaid, and food stamps. Grant amounts would reflect projections of state costs and error rates. Savings are included within AFDC, medicaid, and food stamps program savings.					

* The overall effect of this proposal on the Federal deficit, including additions and revenue losses, is shown.

IMPACT ON THE POOR AND DISADVANTAGED

The President's proposed reductions to major entitlement programs, as shown on the table which follows, indicate that the reductions fall most heavily on means-tested welfare programs.

The President proposes legislation which would achieve net savings of \$11.55 billion to the budget deficit. This total is made up of \$13.30 billion in outlay reductions offset by \$1.7 billion in revenue loss from the Railroad Retirement proposal.

Of the savings, \$6.95 billion, representing 60 percent of the totals, are addressed to programs which are aimed at assisting the poor and disadvantaged, such as food stamps, AFDC, SSI and Medicaid. In total, these programs would spend \$57.2 billion in fiscal year 1983 under current law. The President's proposals would reduce the expenditures to \$50.2 billion, a decrease of more than 12 percent.

By contrast, legislation affecting veterans programs would have slightly more than a 1 percent impact on their expenditures.

ENTITLEMENT PROGRAM REDUCTIONS

(Outlays in billions of dollars)

		1982			1983		
	1981 Actual	President's Budget Current Law	Proposed Legislation	Net Program Costs	President's Budget Current Law	Proposed Legislation	Net Program Costs
A. Individual Assistance Programs: (Need-Related Welfare)							
Child Nutrition.....	3.55	2.75	...	2.75	3.00	-0.30	2.70
Food Stamps and Aid to Puerto Rico.....	11.25	11.50	-0.30	11.20	12.60 ^{1/}	-2.25	10.35 ^{1/}
Supplemental Security Income (SSI).....	7.20	8.00	-0.10	7.90	9.20	-0.30	8.90
Aid to Families with Dependent Children (AFDC) and Child Support Enforcement.....	8.50	8.30	-0.20	8.10	7.15 ^{1/}	-1.30	5.85 ^{1/}
Earned Income Tax Credits (EITC).....	1.30	1.25	...	1.25	1.20	...	1.20
Medicaid.....	16.85	18.10	-0.30	17.80	19.00 ^{1/}	-2.00	17.00 ^{1/}
Social Services (Title XX).....	2.65	2.90	...	2.90	2.40	-0.45	1.95
Combined Welfare Administration.....	(2.10)	(2.30)	(...)	(2.30)	2.50	-0.30	2.20
Subtotal.....	51.30	52.80	-0.90	51.90	57.05	-6.90	50.15
B. Retirement, Disability and Health Benefit Programs (Not Need-Related)							
Civilian Retirement Programs.....	18.15	19.95	-0.05	19.90	22.10	-0.50	21.60
Military Retirement.....	13.75	15.00	...	15.00	16.55	-0.10	16.45
Railroad Retirement.....	5.30	5.35	...	5.35	5.70	-5.70 ^{2/}	...
Social Security Retirement Survivors and Disability Benefits.....	138.00	154.65	...	154.65	169.95	+3.60 ^{2/}	173.55
Black Lung Disability Benefits.....	1.75	1.95	...	1.95	1.80	...	1.80
Federal Employee Injury Compensation (FECA).. Medicare Benefits for Aged and Disabled.....	0.25	0.25	...	0.25	0.40	-0.10	0.30
	42.50	49.85	-0.30 ^{3/}	49.55	57.85	-2.50 ^{3/}	55.35
Subtotal.....	219.70	247.00	-0.35	246.65	274.35	-5.25	269.10

	1982				1983		
	1981 Actual	President Budget Current Law	Proposed Legislation	Net Program Costs	President Budget Current Law	Proposed Legislation	Net Program Costs
C. Veterans Benefits							
Compensation (service connected).....	8.45	9.50	...	9.50	10.30 ^{4/}	-0.15	10.15
Pensions (means tested).....	3.75	3.95	...	3.95	4.10	-0.05	4.05
Readjustment Benefits (education).....	2.40	2.05	...	2.05	1.75	-0.05	1.70
Burial Benefits and Life Insurance payments..	<u>1.25</u>	<u>1.20</u>	<u>...</u>	<u>1.20</u>	<u>1.20</u>	<u>...</u>	<u>1.20</u>
Subtotal.....	15.85	16.70	...	16.70	17.35	-0.20	17.10
D. Unemployment Benefits.....	19.55	25.10	...	25.10	22.65	-0.15	22.50
E. Education Support							
Guaranteed Student Loans.....	<u>2.25</u>	<u>3.05</u>	<u>-0.25</u>	<u>2.80</u>	<u>3.30</u>	<u>-0.75</u>	<u>2.55</u>
GRAND TOTAL - ENTITLEMENTS.....	308.65	344.65	-1.50	343.15	374.70	13.25 ^{5/}	361.40

^{1/}Excludes State administrative costs which are included in a proposed block grant called Combined Welfare Administration.

^{2/}Part of the proposed elimination of the Railroad Retirement Benefits program is offset by an increase in Social Security outlays. In addition, a loss of \$1.7 billion in revenues results from the proposal. Net savings to the consolidated budget are \$0.25 billion.

^{3/}Includes savings of \$93 million in fiscal year 1982 and \$755 million in fiscal year 1983 from administrative actions not requiring legislation.

^{4/}Includes proposed legislation to add 8.1 percent cost-of-living adjustment (COLA) at cost of \$707 million in fiscal year 1983.

^{5/}Total exceeds amounts shown in the table on page 3-8 of the President's budget because that table excludes savings from a proposed reduction in the ceiling for the Title XX Social Services program from \$2.40 billion to \$1.95 billion.

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VII. RESTRUCTURING THE FEDERAL BUDGET

D. Reductions in Nondefense Discretionary Programs

The administration's budget proposes reductions of \$14.2 billion in discretionary and other programs. A major reduction of \$2.2 billion would result from consolidation of the CETA program into a block grant to the States. Also included would be a \$1.6 billion reduction in transportation related grants to the States, principally highways and mass transit operating expenses. Outlays for elementary and secondary education will be reduced \$1.0 billion based on the administration's belief that the responsibility of education rests primarily with parents, States and local government.

The specific reductions are as follows:

● Discretionary program reductions follow:

(In billions of dollars)

	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
Energy research, development conservation and regulation.....	0.9		
Natural resources and environment.	0.7		
Transportation programs.....	1.6		
Elementary and secondary education	1.0		
Training and employment programs..	2.2	(Details of outyear cuts not available)	
Social Services.....	1.0		
Housing assistance.....	0.6		
Low income energy assistance.....	0.6		
Discretionary health and income security programs.....	1.3		
Lower level of borrowing.....	2.7		
All other.....	<u>1.7</u>		
TOTAL OUTLAYS.....	14.2	26.1	35.3

Details of the cuts in discretionary programs proposed for 1983 are provided in the "Highlights and Issues by Function" section.

VII. RESTRUCTURING THE FEDERAL BUDGET

E. Employment and Training Programs

With almost 9.3 million Americans out of work--the highest levels since the last depression--a major national problem exists. However, the President has not addressed the issue of high unemployment and how to offset the current recession in either the state of the Union message or the proposed fiscal year 1983 budget. In fact, the budget continues to propose reductions in programs designed to train the unemployed. This approach is based on the premise that the economic recovery program will provide the stimulus necessary to create additional employment and the belief that "private businesses and employers are more efficient than the Government at training workers for specific tasks that contribute to a productive economy."

The administration has proposed employment and training programs which would (1) consolidate the CETA training programs into a single block grant to the States with a funding level of \$1.8 billion in fiscal year 1983; (2) eliminate the WIN and Community Services Employment for Older Americans programs; (3) establish a new special target program with a funding level of \$200 million; and (4) reduce funding for the Job Corps program. Overall, Federal funding for training and employment programs listed below would decline by 28 percent from the fiscal year 1982 Continuing Resolution levels and 71 percent from the fiscal year 1981 levels. Activities such as the summer youth employment, a work experience program for school-aged youths, may be prohibited under the Reagan proposal.

Employment and Training Programs Funding
(Budget Authority in Millions of Dollars)

Program	Appropriation FY 1981	Continuing Resolution FY 1982	President's Request FY 1983
CETA			
• General CETA Training (Title II B-C)	2,102	1,152	...
• Job Corps	561	586	387
• Summer Youth Employment	839	640	...
• Other Youth Training (Title IV)	825	192	...
• Special National Programs (Title III)	536	179	...
• Private Sector Initiative (Title VII)	150	250	...
• Young Adult Conservation Corps (Title VIII)	200	...	...
• Public Service Employment (Titles II D and VI)	2,361	...	...
Work Incentive Program (WIN)	365	246	...
Community Service Employment for Older Americans	277	67*	...
Proposed: Training Grants to States	...	...	1,800
Proposed: Special Targeted Programs	...	...	200
TOTAL	8,216	3,312	2,387

*The Continuing Resolution changed the Community Services Employment Program for Older Americans from a forward-funded to a current-year funded program. The \$67 million appropriated in the Continuing Resolution should not result in a loss of job slots from fiscal year 1981 levels.

VII. RESTRUCTURING THE FEDERAL BUDGET

F. Management Initiatives

The President's 1983 budget includes an estimated \$20 billion in management initiatives savings as a major component of the administration's proposed \$56 billion deficit reduction plan for fiscal year 1983. The administration's estimates of savings from these initiatives are shown in the following table:

SAVINGS FROM MANAGEMENT INITIATIVES
(In billions of dollars)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Outlay reductions:						
Prevention of fraud, waste, and abuse.....	1.0	1.0	1.0	1.0	1.0	1.0
Improved debt collection.....	...	1.0	1.0	2.0	2.0	2.0
Federal employment reduction...	...	...	...	0.7	1.5	2.3
Federal property disposition...	...	1.0	4.0	4.0	4.0	4.0
Accelerated OCS leasing.....	...	8.4	7.8	5.8	6.3	5.4
Federal pay restraint.....	...	1.4	3.0	4.5	5.8	6.9
Improved asset sale management.	0.1	1.3	1.0	0.5	0.5	0.7
Revised FHA mortgage insurance payments.....	...	0.7	0.7	0.7	0.6	0.6
Subtotal, outlays.....	1.1	14.8	18.5	19.2	21.8	22.9
Receipts increases:						
Improved tax collection and enforcement:						
Speed up of corporate tax collections.....	...	1.4	1.7	0.9	0.2	-0.2
Withholding on interest and dividends.....	...	2.0	1.3	1.4	1.6	1.9
Increased IRS enforcement and collections.....	0.2	2.1	2.4	2.4	1.3	0.6
Subtotal, receipts.....	0.2	5.5	5.5	4.7	3.0	2.4
Total, management initiatives....	1.2	20.3	24.0	23.9	24.8	25.2

Source: President's 1983 Budget

Highlights of the Proposals

- Prevention of fraud, waste and abuse - continuation of 1981 emphasis on management improvements for an estimated savings of \$1.0 billion in each fiscal year 1982 through 1985.
- Improved debt collection for a total estimated savings of \$4.0 billion in fiscal year 1983. \$1 billion is reflected in Function 920: Allowances, \$1.35 billion is distributed to the other functions, and \$1.66 billion is reflected in increased tax receipts.
- Continuation of last year's proposed reduction in the Federal work force of 75,000 Federal workyears by 1984 with the savings in fiscal year 1985 and beyond shown in Function 920 and the savings between fiscal years 1982 and 1984 distributed to the functions.
- Elimination of two major departments -- Energy and Education -- and elimination of a number of smaller agencies including, Bureau of Alcohol, Tobacco and Firearms, Appalachian Regional Commission and Legal Services Corporation.
- Holding Federal pay raises to 5 percent.
- Increased sales of real estate assets for an estimated return of \$1.2 billion in fiscal year 1983.
- Increased leasing of Outer Continental Shelf (OCS) lands for an estimated return of \$8.4 billion in fiscal year 1983.
- Eliminating or reducing regulatory activities, including a further 14 percent reduction for the Federal Trade Commission and a two year phase out of health planning and regulatory institutions.
- Replacing monthly premiums for FHA insurance with a one-time settlement charge.
- Increased tax collections resulting from accelerating corporate tax collections, initiating withholding on interest and dividends, and stepped up enforcement and collections by the Internal Revenue Service.

Perspectives

The administration has grouped a wide range of proposed changes in Federal government activities under the rubric of a \$20 billion management initiatives program in 1983. The fraud, waste and abuse measures and improved debt collection proposal signal merely the continuation of themes included in the President's revised fiscal year 1982 budget. The \$2.0 billion in savings reflected in the accompanying table for these activities are largely savings resulting from cost avoidance measures which cannot be specifically identified. (Another \$3 billion in debt collection savings is assumed elsewhere throughout the President's budget.) In fact, during the development of the fiscal year 1982 budget, the administration questioned whether many similar kinds of management improvements could be achieved during a single budget year.

The administration's proposals to abolish a number of Federal departments and agencies also include proposals which were a part of the revised fiscal year 1982 budget. Dollar savings associated with these changes are not clearly identified. In most cases, the functions of the existing agencies would merely be transferred to other departments or agencies, resulting in no net savings in the Federal budget or, in some cases, an increase in costs to the Government in the short term.

Another group of proposals (e.g., real property disposal and increased OCS leasing) project savings which represent almost half of the total included in the program, over \$9.0 billion. These savings estimates hinge on highly optimistic or unrealistic assumptions about the speed with which Federal property management activities can be implemented. Increased real property sales will require statutory changes, massive efforts to appraise and inventory real property which suggest that receipts of \$5 billion over 2 years may be too optimistic. The estimated \$8 billion from accelerated OCS leasing is also highly optimistic. Currently, sales are delayed due to court suits brought under the National Environmental Policy Act.

The proposals to improve tax collection and enforcement procedures represent a reversal of the position taken by the administration in its revised 1982 budget which emphasized reducing the intrusion of the Federal Government. Similarly, these proposals are inconsistent with other pieces of this year's management initiatives program. The proposed revenue increases are also based on fairly optimistic assumptions about the ability of the tax collection system to absorb and implement rapid growth within a single year.

Each of these proposals must be subjected to careful review as the administration submits individual legislation or administrative plans required to implement this program.

VII. RESTRUCTURING THE FEDERAL BUDGET

G. User Fees

The President's 1983 budget includes in the deficit reduction plan proposals to impose or increase a number of categories of user fees. These charges are estimated to increase offsetting receipts and revenues by \$2.5 billion in fiscal year 1983. These proposals are generally intended to recover the cost of providing services to specific users of Federal services rather than spreading the cost among all taxpayers.

Proposed Increases In User Fees
(In millions of dollars)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Passport and Visa	41	72	75	78
Patent and Trademark	...	39	43	48
Commercial Nuclear Waste	...	300	501	549
NOAA Aeronautical and Nautical Maps and Charts	...	14	29	44
GNMA Mortgage-Backed Securities Fees	...	4	4	4
Recreation	...	63	68	70
Aviation	131	1,187	1,350	1,548
Coast Guard	...	200	800	800
Commodity Futures Trading Commission	...	23	23	23
Corps of Engineers Navigation	...	448	458	475
Energy Regulatory Licenses and Services	...	35	35	35
Grievance Arbitration	...	1	1	1
Veterans Housing Loan Guarantees	...	95	105	110
Other Miscellaneous Fees	<u>...</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total Increases	172	2,487	3,498	3,791

Following is a brief description of the proposed increases:

- Passport and visa fees--Passport fees would increase from \$15 to \$30 beginning April 1, 1982; immigrant visa fees would go up to \$100 from \$25 beginning March 1, 1982. The increase in passport fees would require Congressional approval of pending legislation.
- Patent and Trademark--Fees would be increased from the current 50 percent to 100 percent of application processing costs. (Average filing fee proposed at \$330; average issue fee proposed at \$500.) Fifty percent of the fee would be recovered before issuance of the patent and 50 percent over the 17-year life of the patent.
- Commercial Nuclear Waste Disposal--A new one mill per kilowatt hour fee would be imposed on nuclear energy producers to establish a fund for waste disposal operations. Legislation is pending before Congress.
- NOAA Aeronautical and Nautical Maps and Charts--Prices for maps and charts would be increased beginning in 1983, to achieve full cost recovery by 1985. In 1981, 34 percent of costs were recovered. Legislation will be required to achieve this increase.
- GNMA Mortgage-Backed Securities--The fee for a GNMA commitment would be raised to, on average, \$1,000 per pool package commitment. In 1981, a flat fee of \$500 per pool commitment was imposed. In addition, a new fee of \$250 would be charged to new GNMA securities issuers (an estimated 150 per year).
- Recreation--Existing entrance fees at recreation areas would be raised and expanded to other areas. For example, the cost of a Golden Eagle passport which admits cars to all national park areas for a year would be increased from \$10 to \$30. Legislation will be proposed to adjust fees for inflation and to set comparable fees for comparable areas.
- Aviation--Legislation will be proposed to revise the administration's March 1981 proposal to institute the following fees: 8 percent passenger ticket tax; general aviation gasoline tax of \$0.12 per gallon in 1982-83 increasing by \$0.02 each subsequent year to \$0.20 in 1987; jet fuel tax of \$0.14 in 1982-83 increasing by \$0.02 each subsequent year to \$0.22 in 1987.
- Coast Guard User Fees--Legislation similar to a 1981 proposal will again be proposed to initiate variable fees for direct services (e.g., licenses and inspections) and to initiate an annual fee for other services, (e.g., navigation aids and search and rescue services). Legislation will propose 100 percent cost recovery for certain services by the end of fiscal year 1983.
- Commodity Futures Trading Commission--The budget proposes new transaction charge averaging about \$0.25 per contract to recover the full cost of CFTC regulatory operations.

- Navigation User Fees--Renewal of a 1981 proposal to initiate a charge to commercial users or project sponsors of inland waterways. The administration estimates that for the whole inland system, user fees would be about \$1.10 per 1,000 ton miles, an addition to the current barge rate of about \$8 per 1,000 ton miles.
- Energy Regulatory Licenses and Services--New or increased fees would be charged to companies making licenses and other applications to the Federal Energy Regulatory Commission. New fees would be imposed for electric and natural gas rate determination services. Fees would be increased for other services such as pipeline approvals and hydro-power licenses.
- Grievance Arbitration--Users of the Federal Mediation and Conciliation Service (FMCS) and the National Mediation Board would be charged a fee equal to the total costs of services. The FMCS fee is estimated at about \$15 per list of arbitrators supplied.
- Veterans Housing Loan Guarantees--Legislation will be proposed to initiate a 0.5 percent funding fee at settlement on each loan guaranteed. Estimated fee of \$285 on the average \$57,000 VA housing loan.

PERSPECTIVES

When the Federal Government provides a service to a specific class of users it is generally good public policy to identify the costs involved and to collect those costs from the user. However, some policy questions arise because of the variation in proposals by the administration.

For instance, in the transportation user fee area, the administration in general is increasing user fees, but in fiscal year 1983 we will have highway users paying 100 percent of costs, Coast Guard users paying 25 percent, and aviation users paying something in between. In addition, public policy can be complicated by treating different classes of users for the same service differently. For instance, commercial aviation users will continue to pay nearly 100 percent of identifiable costs, whereas general aviation users will pay more than current policy, but substantially below 100 percent of identifiable costs.

In addition, the issue of equity poses difficult questions. While it may be equitable to make users pay a fee, there arises the issue of the regressive nature of user fees. For instance, in the case of raising the fees for the national park system: will the additional fees result in certain economic strata reducing their usage of the system? Perhaps the maintenance of national resources, such as our national park system, is better funded from all citizens through the progressive Federal tax code. As another example of the equity question, will a wealthy yacht owner feel the same impact from imposition of Coast Guard user fees as a small boatowner?

VII. RESTRUCTURING THE FEDERAL BUDGET

H. Aid to State and Local Governments and "New Federalism"

- The administration proposes grant-in-aid outlays estimated at \$81.4 billion in 1983, \$9.8 billion or 11 percent below the 1982 estimate of \$91.2 billion, and \$13.3 billion or 14 percent lower than the 1981 total of \$94.8 billion.
- From 1961 to 1981, grant-in-aid outlays grew at an annual rate of 11.0 percent. Since 1980, the rate of growth in grant outlays has decreased significantly. This decline in the rate is in part due to the phasedown of outlays from economic stimulus activities funded in the 1975-1976 recession. The current emphasis on fiscal restraint in fiscal years 1981 and 1982 represents a dramatic reversal of previous growth patterns.
- General purpose and broad-based grants-in-aid are expected to grow from \$16.9 billion in 1981 to \$20.7 billion in 1983. All other grants decline from \$77.9 billion in 1981 to \$60.8 billion.
- Federal aid can be broken into two categories: Aid to individuals in the form of income support (e.g., medicaid, child nutrition) and all other grants (i.e., highways, mass transportation, Community Development Block Grants). Income assistance aid is estimated to increase, on a net basis, \$1.6 billion from 1981 to 1982, but to decrease by \$3.9 billion from 1982 to 1983 to a total of \$37.6 billion. All other grants are expected to decrease by \$5.1 billion from 1981 to 1982 and decrease by \$5.9 billion from 1982 to 1983.

The importance and scope of the income support aid programs can be highlighted by the fact that 41 percent of the total estimated grant-in-aid outlays in 1983 are in the Department of Health and Human Services, the next largest is the Transportation Department with 15 percent.

Major highlights of the budget include:

- The establishment of block grant programs to reduce regulation and administrative cost continues to be a major feature of the administration's program. The Omnibus Reconciliation Act of 1981 established 9 new block grants which consolidated 57 categorical programs.

The 1983 budget proposals would establish 7 new consolidated grants and provide for additions to 3 existing block grants. The 7 new grants involve: 1) vocational and adult education, 2) education for the handicapped, 3) employment and training, 4) rehabilitation services, 5) child welfare grants, 6) rental rehabilitation grants, and 7) combined welfare administration.

The 3 new expanded block grants include: 1) primary care, 2) services for women, infants and children (WIC), and 3) energy and emergency assistance.

- Grant outlays for elementary, secondary, and vocational education are estimated to be \$5.1 billion in 1983, a \$1.6 billion or 24 percent reduction from 1982.

- Social Services Block Grant (authorized in the 1981 Omnibus Budget Reconciliation Act) outlays are proposed at \$2.0 billion in 1983, \$0.9 billion, or 31 percent less than 1982, of which \$0.5 billion is current law.
- Community Services Block Grant (authorized in the 1981 Omnibus Budget Reconciliation Act), outlays are proposed at \$100 million; \$248 million, or 71 percent less than 1982.
- Medicaid outlays are estimated at \$17.0 billion in 1983, which assumes a \$1.9 billion savings based on program reforms, including a reduction in the Federal matching share for optional services and beneficiaries and new requirements for beneficiary copayments.
- AFDC assistance payments outlays are expected to be \$5.4 billion in 1983, \$1.8 billion, or 22 percent below 1982. Proposed 1983 legislation is expected to save \$1.3 billion in Federal outlays by requiring those who are able to work to do, and would include income and other resources that have not previously been counted in determining AFDC benefits.
- Law enforcement grants in the Office of Juvenile Justice and Delinquency Prevention would be eliminated on the expectation that States and localities will fund needed programs.

"NEW FEDERALISM"

This is the most significant proposal in the President's budget which would affect States and localities. However, it is not a fiscal year 1983 budget issue and is proposed to start in fiscal year 1984.

The plan involves several major components which allow for a tradeoff in financial as well as administrative responsibilities between the Federal Government and State and local governments.

The two major provisions of the New Federalism proposal are:

- 1) A Federal takeover of medicaid in return for State takeover of food stamps and Aid to Families with Dependent Children (AFDC) - a \$20 billion exchange, of which \$19.1 billion is the estimated cost for medicaid, and \$16.5 billion, the 1984 estimate for food stamps and AFDC.
- 2) A turnback of more than 40 Federal education, transportation, community development and social service programs to States, to be financed by existing excise taxes on gasoline, tobacco, alcohol, and telephone services, and by the oil windfall profits tax, which totals \$28.0 billion in 1982. The \$28 billion super excise tax trust fund, plus the \$19.1 billion in Federal takeover of medicaid totals \$47.1 billion which is to be compared to a \$46.7 billion total of program costs to be absorbed by States and municipalities

Fiscal Condition of States and Localities

National Income and Accounts (NIA)

- The NIA provides a comprehensive statistical description of the U.S. economy that includes State and local government receipts and expenditures. These data measure the relationship between the State and local governments as a sector of the economy and other sectors.

The President's 1983 budget projects an aggregate operating account surplus of \$4.4 billion in 1981 for State and local governments.

- In the 1950's and 1960's, the NIA data showed the aggregate operating account for States and localities in deficit, and in the 1970's the account was in surplus several years. Most recently the operating accounts had a surplus of \$2.9 billion in 1979, and \$2.1 billion in 1980.

Other Projections

The 1983 budget does not discuss some of the complexities of estimating the relative fiscal health of States and localities. For instance, all States except Vermont have statutory requirements to have balanced budgets.

- The National Governors' Association, in their seventh annual "Fiscal Survey of the States," projects that end-of-year balances will decline from \$11.3 billion in fiscal year 1980 to a projected \$2.3 billion in fiscal year 1982.
- The Survey notes that the overall weighted balance for all 50 States represents only 1.5 percent of total expenditures, well below the 5 percent traditionally considered safe by State budget officers. For comparison, in 1980 the end-of-year State balances averaged 9 percent and in 1981, 3.3 percent. The NGA Survey was done before the impact of the fiscal year 1982 budget reductions and national recession took place, thus the final numbers may be even more pessimistic. In addition, only seven States were expected to have budget balances of more than \$100 million.
- The Joint Economic Committee conducted a survey of 275 cities around the Nation in May, 1981, and found that more than half the cities reported operating deficits in 1979 and 1980, and even larger deficits were projected for 1981.
- A study by the National Conference of State Legislatures, published January, 1982, found that the recession is causing severe budget problems for a majority of States, and 29 States expect to conclude their current fiscal years with deficits or with balances equal to one percent or less of their annual spending.

- A significant conclusion of the report was that, "The cutbacks of Federal aid are not the primary cause of State fiscal distress, but they exacerbate it. Those cutbacks could hardly have come at a worse time in view of the anemic state of State budgets". The report also states that, "Fiscal stress can be found in all parts of the country... even Sunbelt States are generally facing very tight budgets... the Southwest is the only region where the majority of States are fiscally comfortable".
- States and localities are being buffeted by economic forces beyond their immediate control.
 - A majority of States (30) have their tax code indexed to the Federal tax structure and thus anticipate a reduction in revenue associated with the Federal 1981 tax reforms.
 - States and municipalities are paying a premium in the bond market, with municipal rates up from 10.1 percent a year ago to over 14.6 percent currently. Each percentage point has been estimated to cost \$620 million annually.
 - State and local purchases, which represent one-eighth of GNP, are running 3.5 percent below a year ago in real terms, which contrasts with a rise of 4.5 percent even in the deep recession of 1973-1975.
 - Tax increases to date by 30 States are the largest in ten years (\$2.5 billion).
 - 13 States experienced unemployment rates above 9 percent in December, 1981.
 - 12 States experienced unemployment rates above 7 percent in December, 1981.
 - 8 States experienced unemployment rates below 4.9 percent in December, 1981.

VII. RESTRUCTURING THE FEDERAL BUDGET

I. Enterprise Zones

The administration will propose the designation of Enterprise Zones as an experiment for dealing with urban problems. These zones would have a dual purpose, dealing with inner city employment problems and with the redevelopment and revitalization of depressed urban areas. The Enterprise Zone Program would provide businesses and individuals with special tax incentives and regulatory exemptions.

The Secretary of Housing and Urban Development would be authorized to designate up to 25 zones per year, for three years, as Enterprise Zones on the application of the State and city governments. Zones would need to meet basic eligibility criteria as areas of pervasive poverty, unemployment, and general distress. The Secretary of HUD would by law consider the contribution of non-federal governments to tax and regulatory relief; improvement of local public services; and the involvement of neighborhood organizations and private sector groups. Selection of areas to be designated as zones may favor those communities that have abolished rent control, local or state minimum wage standards, state usury laws and zoning requirements, but this characteristic of the program appears to be very controversial.

The tax components of this proposal are discussed in Section V. There are no specific details available about proposed outlays. The outlay equivalent of the entire program for Fiscal Years 1984-87 is shown below.

	(\$ in millions)			
	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Budget Authority	0	0	0	0
Outlay Equivalent	310	620	930	930

VII. RESTRUCTURING THE FEDERAL BUDGET

J. Dismantlement of Energy and Education Departments

1. The President's Proposal to Dismantle the Department of Energy (DOE)

The President has proposed to dismantle the Department of Energy (DOE) and shift the remaining programs to the Departments of Commerce, Interior, and Justice, and reestablish an organizationally independent Federal Energy Regulatory Commission.

The President would give the Department of Commerce (DOC) the bulk of DOE's programs, or about 72 percent of the President's budget authority request for DOE programs. He would give the Department of the Interior (DOI) 27 percent of DOE's programs, and he would place remaining oil price regulation programs in the Department of Justice (DOJ). DOJ activities would account for \$20 million or 0.5 percent of the President's budget request for DOE.

The bulk of DOE's programs that would be transferred to Commerce would in turn be placed into a new agency formed within the Commerce Department named the Energy Research and Technology Administration (ERTA). ERTA would receive \$8,444 million of the \$11,832 million DOE request, or about 71 percent. ERTA would contain all DOE energy research and development programs, the atomic weapons programs (65 percent of the ERTA budget), the uranium enrichment program, and the general science activities in DOE. In addition, Commerce would be given the energy information and emergency preparedness activities of DOE, and be given the responsibility of managing the closeout of DOE's conservation grants. The latter activities would account for less than 1 percent of the overall DOE request, and would be placed in Commerce, but outside of the ERTA.

The President would give the Department of the Interior responsibility for managing the Strategic Petroleum Reserve, the Naval Petroleum Reserves, and the Power Marketing Administrations. Interior would thus inherit \$3,262 million of the \$11,832 million DOE request, or 27 percent of the total request.

The President's Rationale

The President submits a list of reasons for his proposal contained in "Major Themes and Additional Budget Details" (page 251). Among these are:

- "The Nation's energy problems will be resolved primarily by the American people, not by the government..."
- "The existence of the DOE has sent the wrong signals to energy producers and consumers, deluding them into a sense of complacency and dependence upon central planning..."
- "Instead of improving the nation's energy situation, Federal government programs...actually reduced our capability to respond effectively..."

The President also states "action taken to reduce or eliminate Energy Department activities, together with the dismantling, will produce in 1983, estimated budget authority savings of \$1.3 billion, and employment reductions of 3,800 workyears from present estimates of 1982 levels..."

In his budget message, the President also states: "In view of the limited responsibilities and role of the Federal Government in energy, it is wasteful and inappropriate to maintain a Cabinet-level Department of Energy...."

Issues

- Budgetary Savings from Dismantlement of DOE--What savings can be attributed to the dismantlement of DOE as opposed to the reduction or elimination of programs administered by DOE? As quoted above, the President's transmittal hints, but does not actually state, that the savings from DOE dismantlement would be substantial. Dismantling the department should result in certain administrative savings which would be offset by the one-time costs of moving the remaining programs into other departments, and by the increased administrative costs in the Departments of Commerce, Interior, and Justice that would now administer these programs. However, these savings are to be distinguished from those accruing from the elimination of programs which would be reductions regardless of whether the Department of Energy continued to exist.

The administration has not provided a detailed estimate of the budgetary savings obtained from the dismantlement of DOE. The Congressional Budget Office, at the request of the Chairman of the Senate Budget Committee, has prepared a study addressing this question. CBO's conclusion is that:

"Reorganization, by itself, is unlikely to result in significant budget savings. Instead, the principal impact on energy programs and expenditures derives from policy changes that have been reflected in the budget."

- Is there an Economically Justifiable Role for the Federal Government in Energy Issues? Are there market imperfections, or externalities -- such as the national security implications of world oil market insecurity -- that would make it possible for the Federal Government to play a positive economic role in the resolution of the nation's energy problems?
- DOE Dismantlement and the Effectiveness of the Federal Role--If there is an appropriate role for the Federal Government in energy issues, would the President's proposed reorganization of DOE functions make it easier or more difficult for the Government to attain its goals? The CBO study indicates that:

"the proposed reorganization is not likely to improve the coordination among energy-related programs. Indeed, it could make such coordination more difficult...."

2. The President's Proposal to Dismantle the Department of Education (ED)

- Abolish the Department.
- Establish a non-Cabinet level Foundation which will assume responsibility for block grants and consolidated aid for State and local educational agencies; student loans and grants; support for compensatory and equal educational opportunity programs; and a core of informational, statistical, and research services for education.
- Transfer activities that are not directly related to education support functions to other agencies.

The President's Rationale

The President submits a list of reasons for his proposal which we quote below:

- "The primary responsibility for education belongs to parents, States, and localities. A Cabinet-level Department of Education symbolizes the preemption of appropriate State and local activities."
- "Federal intervention in education has been intrusive, has imposed unnecessary administrative and regulatory burdens on education agencies, and is supported by too large a bureaucracy for the limited role the Federal Government should play."
- "Federal dollars have distorted State and local, and private education policies by mandating priorities for local officials, and by taking many decisions about what and how to teach out of the hands of local boards, teachers, parents, and administrators."

Issues

- The Federal Role in Education -- A clear policy on the Federal role in education has not been defined by the Administration.
- Would reorganization of education programs to other agencies create conflicting goals and objectives? -- For example, the Bureau of Indian Affairs (BIA) is concerned primarily with the problems of Indians who live on reservations. However, Indian education programs address problems of Indians who live in urban areas, as well as those of Indians who live on reservations. Thus, transfer of this function to the BIA may have unintended detrimental side effects.
- Are there budget savings from abolishing the Department? The Administration is claiming annual savings of \$56 million but has not provided any supporting documentation. This represents slightly more than one-half of 1 percent of the total Foundation budget.

VII. RESTRUCTURING THE FEDERAL BUDGET

K. Credit Budget

The President's 1983 budget restates and emphasizes the belief of the administration that Federal credit assistance distorts the allocation of credit, leads to inefficient investment, and raises interest rates by crowding out private sector borrowers. The budget proposes to constrain Federal credit assistance in both 1982 and 1983. Included in the budget are several amendments to 1982 annual appropriation limits for guarantee programs enacted by Congress. These proposed amendments would implement the reductions in loan guarantee programs announced November 5 by the President. The following table summarizes the credit budget aggregates:

Credit Budget Summary Table
(In billions of dollars)

		1982		
	1981 <u>Actual</u>	Current <u>Level</u>	Revised Administration <u>Request</u>	1983 <u>Request</u>
<u>Direct Loan Obligation</u>				
On-budget	40.9	42.4	39.9	31.8
Off-budget	16.3	17.8	16.5	17.2
Subtotal, Direct Loans	<u>57.2</u>	<u>60.2</u>	<u>56.4</u>	<u>49.0</u>
<u>Loan Guarantee Commitments</u>				
Primary guarantees	76.5	86.1	87.1	98.4
Secondary guarantees	44.1	68.2	48.7	38.4

The administration's budget also contains a significant scorekeeping change in Federal guarantee commitments. In the past, where the Federal Government committed to guarantee only a portion of a loan, only the actual amount guaranteed, or the contingent liability assumed, was recorded in the credit budget. In the President's 1983 budget, the full principal amount of such loans is scored even if only part of the loan's value is guaranteed. The objective of this change is to better illustrate how Federal credit programs affect the allocation of total credit supply. Memorandum entries continue to display the amount of contingent liability. The program most affected by this scorekeeping change is the Veterans Administration home mortgage guaranty program. The amount recorded for VA mortgage guarantee commitments in the credit budget will more than double because the effective guarantee is less than half of the face value of mortgages.

1982 Credit Budget Revisions

The revised administration credit budget for 1982 contains several differences from the 1982 credit budget as enacted by Congress. The differences fall into two categories, policy and estimating differences. The policy differences are in the form of proposed amendments to loan guarantee limits enacted by Congress in 1982 appropriation bills. All of these proposed

amendments are tied to the President's November 5 guarantee reductions. By far the largest is a revised limit of \$48 billion for GNMA secondary guarantees of mortgage-backed securities, a reduction of \$20.2 billion from the limit enacted by Congress. The largest proposed 1982 amendment in a primary guarantee program is a \$1.2 billion reduction in Export-Import Bank guarantees from \$9.2 billion down to \$8.0 billion.

The revised 1982 administration credit budget also contains several major reestimates in credit programs not subject to an annual limit or in programs where the administration estimates that an agency will not reach an appropriation limit because of market conditions. These reestimates explain all of the difference between the current credit budget levels for direct loan obligations and the administration's revised 1982 credit budget and the differences in loan guarantee commitments which are not part of the November 5 reduction package. The major reestimates in direct loans are a \$3.3 billion reduction in loans required from the National Credit Union Administration central liquidity facility and a \$1.5 billion increase in the amount of rural housing loan expected to be purchased by the Federal Financing Bank. There are three major reestimates in loan guarantee programs for 1982. Veterans home mortgage guarantees are scored \$11.3 higher because of the change to full face value in the scorekeeping of guarantees. The administration estimates that because of market conditions only \$28.6 billion of FHA mortgage insurance commitments will be made in 1982 although the appropriation limit is \$40 billion. Finally, guaranteed student loan commitments are now estimated to be \$9.5 billion in 1982, an increase of \$3.8 billion over the previous estimate.

Proposed 1983 Credit Budget

The administration budget proposes significant reductions in direct loan obligations of \$7.4 billion compared to the revised 1982 credit budget. The largest two proposed reductions compared to 1982 are a \$2.6 billion decrease in FMHA loans for rural housing, rural development, and farm operation loans and a \$2.0 billion decrease in Commodity Credit Corporation price support loans. 1983 primary loan guarantee commitments are proposed to increase by \$11.3 billion, primarily because of an expected rebound in housing markets in 1983. FHA mortgage insurance commitments are estimated to increase by \$6.4 billion up to \$35 billion, and VA mortgage guarantees are expected to increase by \$2.9 billion up to \$22.4 billion. Additional reductions are proposed in secondary guarantee commitments. The entire decrease of \$10.3 billion in secondary guarantees is in GNMA guarantees of mortgage-backed securities.

VIII. ADDITIONAL PROPOSALS FOR FISCAL YEAR 1982

SUMMARY TABLE OF ADMINISTRATION'S PROPOSED RESCISSIONS
(In millions of dollars)

Of the 22 rescission proposals totaling almost \$10.7 billion, the Subsidized Housing program is targeted for approximately \$9.4 billion. The magnitude of the proposed rescission virtually closes down the Section 8 Subsidized Housing program, with the exception of a limited pilot project of housing vouchers for existing units.

Education programs are targeted for \$1.1 billion in rescissions. Outlay reductions associated with these rescissions are estimated to be almost \$0.2 billion for fiscal year 1982.

Close to \$0.1 billion in proposed rescissions are scattered among agriculture, international, environmental, energy and transportation programs.

Outlay reductions associated with these rescissions are estimated to be \$0.2 billion.

Function	1982 Estimates			
	1981 Budget Authority	Budget Authority Before Rescissions	Proposed Rescissions	Budget Authority After Rescissions
150-Development Assistance Program	1,191	1,295	-8	1,287
150-Sahel Development Program	91	94	-3	91
270-Energy Conservation Program	430	64	-20	44
270-Assistance for Solar and Conservation Improve- ments	*	22	-22	0
300-Coastal Zone Management	52	7	-12 ^{1/}	-5
350-Extension Service	304	316	-2	314
400-Highway Related Safety Grants	-15	10	-10	0
450-Coastal Energy Impact Fund	0	0	-7 ^{2/}	-7
500-Compensatory Education for the Disabled	3,112	2,893	-412	2,481
500-Special Programs and Populations	614	537	-66	471
500-Indian Education	82	78	-6	72

1982 Estimates

<u>Function</u>	<u>1981 Budget Authority</u>	<u>Budget Authority Before Rescissions</u>	<u>Proposed Rescissions</u>	<u>Budget Authority After Rescissions</u>
500-Education for the Handi- capped	1,025	1,042	-259	783
500-Rehabilitation Services and Handicapped Research	2,674	2,725	-91	2,634
500-Vocational and Adult Education	782	740	-106	634
500-Student Financial Assistance	3,802	3,352	-142	3,210
500-Higher and Continuing Education	340	321	-43	278
500-Libraries	84	80	-22	58
500-Educational, Research and Training Acti- vities Overseas	1	1	*	1
500-Bilingual Education	161	138	-12	126
500-Institute of Museum Services	13	12	-11	1
550-Mine Safety and Health Administration Salaries and Expenses	152	149	-4	145
600-Subsidized Housing Programs	<u>24,840</u>	<u>16,367</u>	<u>-9,400</u>	<u>6,967</u>
TOTALS**	39,735	30,243	-10,655	19,585

* Less than \$500,000

** Totals may not add due to rounding

1/ The \$12 million rescission is part of \$33 million which was transferred in 1981 from unobligated balances in the Coastal Energy Impact Fund appropriations account.

2/ The \$7 million is rescinded from non-federal sources such as interest income and loan repayments.

SUMMARY CHART OF THE
ADMINISTRATION'S PROPOSED SUPPLEMENTALS

(In millions of dollars)

Agencies:	<u>1982 Budget Authority</u>	<u>Major Purpose</u>
Legislative Branch.....	26	
The Judiciary.....	2	
Funds Appropriated to the President..	1	
Department of Agriculture.....	6,083	-- Food Stamps & CCC
Department of Commerce.....	9	
Department of Defense-Military.....	2,621	-- See VII-B for explanation
Department of Defense-pay supplementals.....	5,399**	
Department of Defense - Civil.....	1	
Department of Education.....	1,308	-- Guaranteed Student Loan
Department of Energy.....	2	
Department of Health and Human Services.....	847	-- Increased costs in medicaid program
Department of Housing and Urban Development.....	-1,750*	
Department of the Interior.....	99	
Department of Justice.....	4	
Department of Labor.....	1,947	-- Advances to Unem- ployment Insurance Trust Fund
Department of State.....	13	
Department of Transportation.....	167	
Department of the Treasury.....	228	
Environmental Protection Agency.....	2,400	-- Sewage Treatment Construction Grants
Civilian agencies - pay supplementals.....	530**	
Other Independent Agencies.....	<u>643</u>	
TOTAL	20,578	

*Note: HUD will transfer funds from the rent supplement program to the Section 8 housing program. Both these programs are within the subsidized housing account. The proposed negative supplemental would reduce the fiscal year 1982 commitment to subsidized housing by \$1,750 million in budget authority.

** Most of the pay supplementals are included in the President's budget as "allowances." They are proposed for transmittal at a later date.

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IX. HIGHLIGHTS AND ISSUES BY FUNCTION

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FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 050: NATIONAL DEFENSE

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	182.40	218.85	263.05	291.05	338.00
Outlays.....	159.75	187.50	221.05	252.95	292.10
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	182.40	216.50	242.40	265.55	284.30
Outlays.....	159.75	190.15	213.65	238.10	263.05
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	2.35	20.65	25.50	53.70
Outlays.....	...	-2.65	7.40	14.85	29.05

HIGHLIGHTS

Funds in this function are provided to equip and maintain the military forces of the United States, and to finance defense-related activities of the Department of Energy. Major areas of funding include pay and benefits to active military and civilian personnel; military retired pay; research, development and procurement of weapons systems and supporting equipment; military construction including family housing; and operations and maintenance of the defense establishment. Funding is also provided for the development and procurement of nuclear weapons and naval reactors.

Highlights of the major programs in this function are as follows:

- Overall Funding -- The National Defense Function for fiscal year 1983 totals \$263.05 billion in budget authority and \$221.05 billion in outlays, an increase of \$44.20 billion in budget authority and \$33.55 billion in outlays over fiscal year 1982. National Defense outlays are 29.2 percent of the Federal budget and 6.4 percent of the gross national product (GNP). The distribution of the budget increase is shown in the following chart.

Defense Appropriation Title	Budget Authority in billions of dollars		
	1982	1983	Change
Military Personnel	38.50	44.90	+6.40
Retired Pay	15.05	16.50	+1.45
Operation and Maintenance	62.25	69.40	+7.15
Procurement	65.70	89.55	+23.85
RDT&E	20.05	24.25	+4.20
Military Construction	5.05	5.45	+0.40
Family Housing	2.25	2.80	+0.55
Revolving, Management Funds/Other	5.20	4.65	-0.55
Total Department of Defense	(214.05)	(257.50)	(+43.45)
Atomic Energy Defense Activities	4.65	5.50	+0.85
Defense Related Activities	0.15	0.05	-0.10
Total National Defense	218.85	263.05	+44.20

- Real Growth--Real Growth for the Department of Defense is projected to be 13.2 percent in budget authority and 10.5 percent in outlays. The distribution of this growth is shown in the table below.

Real Growth by Appropriation Title, Fiscal Year 1982-1983

	Dollar Value of Real Growth in Billions	Percent Real Growth
Military Personnel	+1.6	+3.5
Retired Pay	+0.5	+3.1
Operation and Maintenance	+4.2	+6.2
Procurement	+19.8	+28.4
RDT&E	+3.1	+14.6
Family Housing, Military Construction, and Other	+1.0	+11.0
Total Department of Defense	+30.2	+13.2

- Manpower--The civilian work force grows by 2,000 in fiscal year 1983 to 1,035,000. The active military shows an increase of 38,000 for a total strength of 2,148,000. This increase is attributed to force structure changes, force modernization, and the number of individuals in training. Reserve personnel strength increases by 54,000 for a total of 1,000,000.

- Pay Raise--A 5.0 percent cap on civilian pay (both general schedule and wage board) is assumed in the budget totals, while military pay is projected to increase by 8.0 percent.
- Nuclear Aircraft Carriers--The administration is proposing the authorization and full funding of two more nuclear powered aircraft carriers. These would be the fifth and sixth nuclear carriers of the NIMITZ class. Advance procurement funding of \$475 million was appropriated by Congress in fiscal year 1982 for long leadtime nuclear components for the fifth carrier and the fiscal year 1983 budget request includes \$6.9 billion to complete this funding and to fully fund the sixth carrier.
- B-1 Bomber--The budget proposes \$4.8 billion in budget authority to continue the B1-B bomber program and procure seven aircraft in fiscal year 1983. The total procurement quantity is currently projected at 100 aircraft.
- Procurement Funding--Funding for procurement is again increased substantially in real terms. The fiscal year 1983 request for procurement funding represents approximately a 63 percent increase in real terms from the fiscal year 1981 level.
- MX Missile--The fiscal year 1983 budget request increases funding for the M-X Missile by \$2.5 billion to a total of \$4.5 billion. This includes funding for RDT&E, Military Construction and provides for initial procurement of 9 missiles.
- Atomic Energy Defense Activities--President Reagan requests \$5.5 billion for atomic energy defense activities in fiscal year 1983, up from \$4.7 billion in fiscal year 1982 and \$3.7 billion in fiscal year 1981. These increases provide for increased missile warhead production for current and new weapon systems. The President's proposal to dismantle the Department of Energy would transfer these activities to the Department of Commerce, where they would be part of the Energy Research and Technology Administration (ERTA) and represent 65 percent of ERTA's budget.

MAJOR ISSUES

1. Real Growth

The administration proposal for the fiscal year 1983 budget provides 13.2 percent real growth in defense programs. At issue is whether the overall threat, economic constraints and industrial capacity warrant real growth of this magnitude. At issue also is what level of defense spending is being provided by our allies while we are providing substantial defense spending increases.

2. Strategic Programs

The administration is proposing substantial increases in strategic programs (+\$6.9 billion) in line with its announced build-up in this area. There are many questions about the need for a build-up of such a magnitude in this area considering other defense needs. Further, the administration's programs to achieve this buildup have not been well defined to include the mix of systems proposed.

3. Military Compensation

The administration is proposing an 8 percent pay increase for military personnel. There is the question of whether after 2 years of substantial pay and benefit increases, with the military essentially meeting its recruitment and retention goals, and with the current Federal Government fiscal situation, as to why the military is being provided a pay raise of this magnitude which is in excess of that recommended for other Federal workers.

4. Aircraft Carriers

The administration is requesting funding (\$6.9 billion) for two aircraft carriers in fiscal year 1983. The need for, cost of, and vulnerability of aircraft carriers all bring into question the desirability of procuring two more nuclear powered aircraft carriers.

5. Procurement Increases

Considering other defense needs, the Nation's industrial capacity, and how poorly managed the procurement of numerous weapons systems has been previously, there is concern as to whether growth of this magnitude can be effectively or efficiently accomplished.

PERSPECTIVES

The fiscal year 1982 program continues the substantial real growth rates for the National Defense function. As shown in the chart below, these rates of real growth affect all defense categories. However, it should be noted that the larger areas of growth are in the investment accounts (research and development, and procurement) while manpower levels remain relatively constant. This could cause problems in the readiness area, as large quantities of sophisticated new weapons systems are deployed with little increase in the troops to man the systems. While the extent of such problems cannot be projected at this time, historical data indicates it should be an area of concern and there is no indication in the Defense budget that this situation has been anticipated.

Defense Budget

● Real Growth (budget authority)

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>
3.2%	12.4%	10.4%	13.2%

● Nominal Growth (budget authority)

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>
14.0%	25.1%	20.0%	20.2%

- National Defense Outlays as Percentage of Gross National Product

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>
5.3%	5.6%	6.1%	6.4%

- National Defense Outlays as Percentage of Federal Budget

<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>
23.6%	24.3%	25.9%	29.2%

- Budget Authority by Activity and Title

	(In billions of dollars)			
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Military Personnel	31.0	36.9	38.5	44.9
Retired Military Personnel	12.0	13.8	15.0	16.5
Operations and Maintenance	46.4	55.5	62.3	69.4
Procurement	35.3	48.0	65.7	89.5
Research, Development Test and Evaluation	13.6	16.6	20.1	24.3
Military Construction	2.3	3.4	5.0	5.4
All Other	2.0	4.2	7.5	7.5
Total (Function 051)	142.6	178.4	214.1	257.5
Atomic Energy Defense Activities (Function 053)	3.0	3.6	4.7	5.5
Defense Related Activities (Function 054)	0.2	0.4	0.1	*
Total National Defense (Function 050)	145.8	182.4	218.9	263.0

*Less than 0.1

- Fiscal Year 1982 Program Supplemental Included in Fiscal Year 1983 Budget

The Department of Defense is requesting a program supplemental of \$2.6 billion for fiscal year 1982 for items such as: fuel inventory buildup, \$0.1 billion; Rapid Deployment Force construction, \$0.1 billion; real property maintenance, \$0.5 billion; family housing, \$0.1 billion; military pay (not the mandatory supplement for October 1, 1981 pay raises), \$0.4 billion; and other unspecified programs, \$0.3 billion.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 150: INTERNATIONAL AFFAIRS

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	24.80	18.50	18.15	17.40	16.40
Outlays.....	11.15	11.10	11.95	12.30	13.00
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	24.80	15.25	17.45	19.30	24.45
Outlays.....	11.15	11.00	11.65	12.40	13.20
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	+3.25	+0.70	-1.90	-8.05
Outlays.....	...	+0.10	+0.30	-0.10	-0.20

HIGHLIGHTS

This function includes programs for the conduct of foreign affairs, including embassies and other diplomatic missions abroad; foreign economic and financial assistance, including security assistance to Israel and Egypt; and international financial programs such as the Export-Import Bank, foreign military sales made through the military sales trust fund, and United States participation in the International Monetary Fund and in international commodity agreements.

Highlights of the major programs in this function are as follows:

- Foreign Economic Assistance Programs--The fiscal year 1983 budget proposes a program level of \$5.1 billion which would continue these programs at about the fiscal year 1982 level, but projects real declines in fiscal years 1984 and 1985. Within these budget constraints the administration plans to meet past commitments for contributions to multilateral development banks but to negotiate for decreasing levels of U.S. support for these institutions in the future.
- Security Assistance Programs--The budget estimate of \$4.8 billion for security assistance programs represents an increase of \$1.2 billion or 33 percent over the fiscal year 1982 level. Of this increase, \$1.0 billion is accounted for by the foreign military credit sales program, for which \$1.7 billion is requested in new budget authority in fiscal year 1983. For fiscal years 1984 and 1985, the budget request is continued at the 1983 budget level with no allowance for inflation.

- Economic and Military Assistance for Israel and Egypt--The budget request continues the high level of assistance for Israel and Egypt. For economic assistance through the Economic Support Fund, the budget request continues the fiscal year 1982 levels of \$785 million for Israel and \$750 million for Egypt. For military credit sales, the budget proposes a program level of \$1,700 million for Israel and \$1,400 million for Egypt.
- Export-Import Bank--The fiscal year 1983 budget request proposes an Export-Import Bank direct loan program of \$3.8 billion, compared to the \$4.4 billion level appropriated by Congress for fiscal year 1982, and a loan guarantee and insurance program of \$8.0 billion versus the \$9.2 billion ceiling set by Congress for 1982.
- International Monetary Fund (IMF)--The CBO current policy estimate for fiscal year 1985 assumes a quota increase for the IMF and estimates budget authority of \$4.3 billion for U.S. participation in that increase. The President's budget makes no assumptions about a quota increase for the IMF.
- Estimating Differences--Estimating differences account for the \$3.25 billion difference in budget authority and \$0.10 billion in outlays between the President's budget and the CBO current policy levels in fiscal year 1982. The major estimating differences are in the budget authority levels for the foreign military sales trust fund, where the President's estimate is \$2.6 billion higher than CBO, and for the Export-Import Bank, where the President's estimate is \$0.5 billion higher than CBO.

MAJOR ISSUES

1. Foreign Economic Assistance

The President's budget eliminates any growth in economic assistance programs and projects a substantial decline in real terms through fiscal year 1985. Although funding is requested to meet existing U.S. commitments for contributions to the multilateral development banks, these commitments are met on a stretched-out schedule. Further, the projections assume lower funding levels for these banks in the outyears. For U.S. bilateral programs administered by the Agency for International Development and for the P.L. 480 Food for Peace programs, the budget provides about the same funding levels for fiscal years 1983, 1984, and 1985, but makes no allowance for inflation. Consequently, foreign assistance program levels are projected to decline from fiscal year 1981 levels by about \$1.6 billion or 26 percent in real terms through fiscal year 1985, and outlays by about \$1.1 billion or 19 percent.

2. Security Assistance

The President's request of \$1.7 billion for foreign military credit sales includes about \$0.9 billion for direct funding of credit sales on

concessional terms to a number of foreign countries. The Congress rejected such concessional sales during consideration of the fiscal year 1982 request for this program.

3. Export-Import Bank

The President's budget estimates for Export-Import Bank levels in fiscal year 1983 are at about the levels he proposed for fiscal year 1982 in his September 1981 budget revisions. However, in the two previous fiscal years the Congress has increased the Export-Import Bank levels over those proposed by the administration and, as indicated in the highlights section above, the Export-Import Bank levels appropriated by Congress for fiscal year 1982 were higher than those now being proposed for 1983.

PERSPECTIVES

Foreign Aid Programs

The President's budget proposal for foreign aid continues to emphasize growth in security assistance, and decreases, in real terms, in the funding levels for economic assistance programs. In fiscal year 1980 for example, the new program level for security assistance was \$3.0 billion versus the proposed fiscal year 1983 proposal of \$4.8 billion. For economic assistance, the fiscal year 1980 program was \$5.6 billion versus the fiscal year 1983 proposal of \$5.1 billion.

Although the Congress accepted most of the President's reductions in economic assistance, as proposed in his March 1981 and September 1981 budget amendments, it rejected most of his fiscal year 1982 increases in security assistance. Specifically, Congress rejected his proposal to provide \$981 million in direct military sales credits on concessional interest rates of about 3 percent.

Export-Import Bank

The President's budget request continues to project real decline in Export-Import Bank funding. In fiscal year 1981, the direct loan program totaled \$5,431 million, while the President's fiscal year 1983 request is for \$3,830 million. For loan guarantees and insurance the President's 1983 request of \$8.0 billion is slightly higher than the actual 1981 program of \$7.4 billion, but would still represent a real decline in funding available over the three year period.

While the administration has proposed an Export-Import Bank program which it states "will be sufficient to meet the most critical requirements for export financing", there is considerable sentiment in the Congress to provide for Bank financing in excess of the minimum levels. This was evident when Congress considered the President's fiscal year 1982 proposals for this program and raised the direct loan levels to \$4.4 billion from the President's September request of \$3.9 billion, and set the loan guarantee and insurance program at \$9.2 billion in lieu of the September request of \$8.7 billion.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 250: GENERAL SCIENCE, SPACE, AND TECHNOLOGY

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	6.55	7.00	7.80	7.70	7.25
Outlays.....	6.35	6.95	7.65	7.75	7.40
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	6.55	7.00	7.20	7.15	7.35
Outlays.....	6.35	6.90	7.10	7.10	7.25
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	...	+0.60	+0.55	-0.10
Outlays.....	...	+0.05	+0.55	+0.65	+0.15

HIGHLIGHTS

This function includes the general science programs of the National Science Foundation; the space research and technology programs of the National Aeronautics and Space Administration, and Department of Commerce general science programs which were previously under the Department of Energy. The Commerce general science programs include the conduct and support of basic research in high energy physics, nuclear physics, life sciences, and nuclear medicine.

The President's budget request for fiscal year 1983 of \$7,800 million in budget authority and \$7,633 million in outlays is \$619 million in budget authority or 8 percent above the CBO current policy baseline for fiscal year 1983. The President's fiscal year 1983 budget request is about \$800 million or 11.4 percent higher than fiscal year 1982 funding.

Highlights of the major programs in this function are as follows:

- General Science and Basic Research--The President's request for fiscal year 1983 is \$1.70 billion in budget authority for the National Science Foundation and the Department of Commerce basic physics and life sciences programs. This level of funding represents an increase of \$145 million in budget authority or 9.5 percent over fiscal year 1982 funding and about \$43 million less than the CBO baseline level for fiscal year 1983.
- Space Research and Technology--The President's request for fiscal year 1983 is \$6.15 billion in budget authority for NASA space programs. This amount is about \$650 million or 12 percent above the fiscal year 1982 funding level. It is \$618 million in budget authority above the CBO fiscal year 1983 baseline.

The \$650 million increase over fiscal year 1982 includes about \$450 million for space flight which is primarily space shuttle related. Included in this increase is about \$90 million for initial funding to develop a new light weight canister for the solid rocket boosters so the shuttle can obtain a higher orbit for certain missions starting in fiscal year 1985. Much of the remaining amount of increase for the space shuttle is related to an increase in costs for the operation of shuttle flights. Higher costs due to inflation are also a part of the increase.

The remaining increase over fiscal year 1982 of about \$250 million is for increases in space science, application and technology programs and supporting space activities. This increase would essentially maintain total funding at current levels of activity after adjustments for inflation.

MAJOR ISSUES

1. General Science and Basic Research

The President's budget provides an increase of \$75 million in budget authority for the National Science Foundation programs over fiscal year 1982. This would essentially maintain the fiscal year 1982 activity level. It includes \$15 million for the NSF science and engineering education program to maintain fellowships. This amount is nearly 80 percent below the fiscal year 1981 funding level of \$71 million and \$6 million below the fiscal year 1982 level of \$21 million. Since the country is faced with a critical shortage of scientists and engineers, both in industry and Government, as well as a critical shortage of faculty to train them, there may be concern about the proposed funding level.

2. NASA Space Programs

A major issue is the President's new proposal to develop a lightweight solid rocket booster canister to provide thrust augmentation. Although thrust augmentation of some form has been part of the plan for development of the space shuttle since the beginning (primarily for DOD missions), the budget projections had not included it because several alternatives were being considered. The lightweight canister method of increasing thrust augmentation for higher orbits is estimated to cost \$700 million for development between fiscal years 1983 and 1985 when it is first required for a DOD mission. There may be some concern about the ability to develop and produce the canister given the relatively new material technology it would use.

Another issue is the lower level of funding for space exploration missions such as Galileo. Previously it was expected that the Galileo mission to Jupiter would use a new Centaur engine which was being developed by NASA. However, the President's fiscal year 1983 budget has canceled development of the Centaur and assumes that the mission would use the DOD Inertial Upper Stage. This would result in a mission 30 months longer in reaching its destination. The result is short term budgetary savings while the overall costs of the mission would be higher.

A third issue is that space applications programs are being deemphasized by the President's budget. For example, the development of a new communications satellite would be cancelled at a time when the U.S. position in the world communications market is seriously ebbing. The private sector may not take the financial risk involved in order to compete with industrialized countries like Japan and may instead use the satellites developed by such countries.

PERSPECTIVES

Productivity related to Research and Development Investment

This function provides one third of all basic research provided by the Federal Government. Productivity growth averaged 3.2 percent from 1948 to 1965, 2.3 percent from 1966 to 1972 and only 0.8 percent from 1973 through 1980. It has been generally established that the level of productivity growth is influenced by research and development investment. Basic research in particular is needed to stimulate innovations in technology which can lead to productivity growth. The Federal Government provides most of the funding for basic research in the United States. The private sector concentrates primarily on applied research. Therefore, the level of Federal funding for basic research is integral to productivity growth, particularly when comparing the United States to other industrialized nations. For example, for 1981 research and development expenditures on the civilian economy (excluding defense and space) the United States spent 1.7 percent of its GNP while West Germany spent 2.4 percent and Japan spent 1.9 percent.

Funding for basic research by the Federal Government is primarily directed to defense, space exploration, health and energy, in order of funding size with defense receiving the largest amount.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 270: ENERGY

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	6.75	4.85	4.35	4.55	4.10
Outlays.....	10.30	6.40	4.20	3.80	3.75
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	6.75	5.10	5.50	5.60	5.65
Outlays.....	10.30	6.20	5.45	5.30	5.30
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-0.25	-1.15	-1.05	-1.55
Outlays.....	...	+0.20	-1.25	-1.50	-1.55

HIGHLIGHTS

This function contains programs listed under four subfunctions: Energy supply; conservation; emergency preparedness; and information, policy and regulation. The function contains funding for solar, fossil, geothermal, nuclear and other energy R&D programs in the Department of Energy (DOE); the uranium enrichment, naval petroleum reserve and National Petroleum Reserve in Alaska programs; the power marketing authorities in DOE, including the Bonneville Power Administration, and the power program of the TVA; the conservation programs in DOE including the low-income weatherization, schools and hospitals, and State planning grant programs, as well as the Solar Conservation Bank in HUD; the Strategic Petroleum Reserve; and the activities of the Energy Information Administration, the Economic Regulatory Administration, and the Federal Energy Regulatory Commission in DOE, the Nuclear Regulatory Commission, and the Federal Inspector of the Alaska Gas Pipeline.

During the past session, the President supported, and Congress enacted, an off-budget oil acquisition account for the Strategic Petroleum Reserve (SPRC). In fiscal year 1982, off-budget SPRC oil acquisition funds represented \$3.7 billion in budget authority and \$2.95 billion in outlays; in fiscal year 1983, the corresponding figures are \$2.2 billion and \$3.0 billion. This change accounts for part of the functional reductions since fiscal year 1981.

For energy programs, President Reagan's fiscal year 1983 budget requests \$4.3 billion in budget authority and \$4.2 billion in outlays, which is \$0.5 billion in budget authority and \$2.2 billion in outlays below the fiscal year 1982 estimate. However, there is a \$0.9 billion reduction in the budget authority requested for energy supply R&D and energy conservation programs. In addition, large deferrals of fiscal year 1981 authority were available to these programs

in fiscal year 1982 to fund higher program levels. Also, the administration proposes to dismantle the Department of Energy, and the fiscal year 1983 budget reflects that objective. Accordingly, the energy program request is not available as a Department of Energy request, but rather as pieces of a Commerce, Interior and Justice Department, as well as a Federal Energy Regulatory Commission budget request. The budget savings that could be attributed to dismantlement, itself, are not detailed.

Highlights of the major programs in this function are as follows:

- DOE Solar Energy Programs--The fiscal year 1983 request of \$72 million represents a reduction of 72 percent from the \$257 million budgeted for solar energy programs in fiscal year 1982.
- DOE Energy Conservation R&D Programs--The fiscal year 1983 request of \$17.5 million represents a reduction of 88 percent from the \$144 million budgeted for energy conservation R&D programs in fiscal year 1982.
- DOE Energy Conservation Grant Programs--The fiscal year 1983 request of \$4.3 million represents a reduction of 98 percent from the \$240 million budgeted for DOE energy conservation grant programs in fiscal year 1982, such as the low income weatherization, school and hospital conservation and the State energy planning grant programs. In addition, the President again proposes to rescind funding (\$22 million) for the Solar Conservation Bank in HUD.
- Fossil Energy R&D Programs--The fiscal year 1983 request of \$106.9 million represents a reduction of 74 percent from the \$416.9 million budgeted for fossil energy R&D programs in fiscal year 1982. President Reagan would end all natural gas R&D and the resulting level of funding would lead to the closing of several of DOE's Energy Technology Centers.
- The Strategic Petroleum Reserve--The fiscal year 1983 request of \$2,316 million represents a reduction of 40 percent from the \$3,875 million budgeted for the Strategic Petroleum Reserve (SPRO) in fiscal year 1982. The reason, apparently, is that conventional cavern capacity for SPRO storage will be filled to capacity during fiscal year 1983. Thus, it will only be possible to store at the rate of 209,000 barrels a day during fiscal year 1983, as opposed to the 300,000 barrel a day minimum target fill-rate approved by Congress.
- Rural Electrification Administration (REA)--The President proposes to reduce the REA insured loan program from \$1.1 billion in fiscal year 1982 to \$0.7 billion in fiscal year 1983 (a 34 percent reduction), and to reduce the REA loan guarantee program from \$5.145 billion in new commitments during fiscal year 1982 to \$3.76 billion in fiscal year 1983 (a 27 percent reduction).
- Commercial Nuclear Waste Disposal User Fee--The President proposes to establish a user fee on utilities which produce electricity from nuclear power plants that would raise an estimated \$300 million in fiscal year 1983. Proceeds from this fee would be used to pay the costs of disposing of radioactive wastes produced by these power plants.

- Other Highlights--Geothermal energy programs are reduced from \$54 million to \$10 million; funding for the Clinch River Breeder Reactor is increased to \$254 million in fiscal year 1983 from \$194 million in fiscal year 1982; all other breeder reactor programs are reduced from \$453 million in fiscal year 1982 to \$323 million in fiscal year 1983; funding for magnetic fusion R&D is slightly reduced from \$454 million; petroleum regulation activities are decreased from \$43 million in fiscal year 1982 to \$20 million in fiscal year 1983; Federal Energy Regulatory Commission funding is increased from \$77 million to \$93 million; and borrowing authority for the Bonneville Power Administration is proposed to be increased from \$280 million to \$455 million.

MAJOR ISSUES

1. What is an Appropriate Governmental Role in Energy Programs?

President Reagan recommends a major reduction in energy programs and instead proposes that the U. S. should rely on market forces to help society make the transition from an inexpensive-energy past to an expensive-energy future. President Reagan suggests that Federal support for energy programs is only appropriate in basic energy research, and that near term commercial applications should be left to the private sector which is best qualified to decide when a technology is ready for commercialization. The major issue posed by the President's proposals is to what extent should the Government supplement market forces that bring about the development of new energy supply and conservation technologies, and that accelerate society's use of more efficient energy-using techniques. In order to answer this question, the following questions should be addressed:

--whether there are market imperfections that might justify governmental intervention to fund these types of programs, and

--whether there are market externalities, such as a national security concern with the insecurity of the world oil market that may not be adequately reflected in the market price of imported oil, which might justify some Federal support of these programs.

A few specific issues which follow from the general issue stated above, are:

- At issue is whether solar energy R&D programs should be reduced by 72 percent of the fiscal year 1982 level.
- At issue is whether energy conservation R&D programs should be reduced by 88 percent of the fiscal year 1982 level.
- At issue is whether there is a role for Government to play in funding energy conservation grant programs such as those which assist lower-income families to weatherize their homes.

- Another issue is whether Federal fossil energy (coal, oil, and gas) R&D programs should be reduced by 74 percent of the fiscal year 1982 level.

2. Strategic Petroleum Reserve

Should the pace of filling the Strategic Petroleum Reserve be limited to 209,000 barrels a day in fiscal year 1983, because the Reserve is running short of salt dome storage capacity, or should the Government acquire alternative short-term storage--such as leased tankers and tank capacity--that would make it possible to store a larger amount of oil?

3. Rural Electrification Administration

Should Rural Electrification Administration programs be cut by almost 30 percent from the fiscal year 1982 level?

4. Dismantlement of DOE

Should the Department of Energy be dismantled in order to achieve budget reductions, and improve Federal energy policy formulation?

PERSPECTIVES

The reductions proposed by President Reagan for energy programs in fiscal year 1983 are from an already reduced fiscal year 1982 base. In fiscal year 1981, energy programs were significantly larger. For example, solar energy R&D programs that were funded at \$523 million in fiscal year 1981, are now being proposed for fiscal year 1983 at the \$72 million level; this represents an 86 percent reduction from the fiscal year 1981 level.

Energy Conservation R&D programs proposed for fiscal year 1983 at the \$17.5 million level, were funded at \$144 million in fiscal year 1982, and \$279 million in fiscal year 1981. This represents a 94 percent reduction from the fiscal year 1981 level. Energy conservation grant programs, such as the low-income weatherization, school and hospital and state energy planning grant programs are proposed to phase out from the \$430 million level in fiscal year 1981.

Fossil energy R&D programs funded at \$107 million in fiscal year 1983, are funded at \$417 million in fiscal year 1982, and were funded at \$994 million in fiscal year 1981. This represents an 89 percent reduction from the fiscal year 1981 level.

Even though nuclear fission programs as a whole have not grown since 1981, the Clinch River Breeder Reactor program is absorbing a greater portion of these resources, increasing from \$173 million in fiscal year 1981 to a proposed \$252 million in fiscal year 1983. While nuclear programs have stayed at about their fiscal year 1981 level, they now represent a very large percentage of the total energy activities supported by the Federal Government.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 300: NATURAL RESOURCES AND ENVIRONMENT

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	11.15	10.05	8.45	7.75	7.30
Outlays.....	13.55	12.65	9.90	8.35	7.75
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	11.15	10.20	11.05	11.25	11.55
Outlays.....	13.55	12.60	12.25	11.95	11.60
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-0.15	-2.60	-3.50	-4.25
Outlays.....	...	+0.05	-2.35	-3.60	-3.85

HIGHLIGHTS

This functional category contains a wide variety of agencies and programs whose primary missions are focused on prudent management and protection of natural resources and protection of public health by assuring a clean environment. Overall, the President's budget for fiscal year 1983 reflects a decrease of \$2.60 billion in budget authority and \$2.35 billion in outlays below CBO current policy.

Highlights of the major programs in this function are as follows:

- Water Resources--The President's budget reflects the imposition of navigation user fees which results in the President's budget authority (\$3.40 billion) for this area being lower than CBO current policy by \$0.50 billion. The President's budget assumes temporary lower funding for inland and deep draft operation than what is adequately needed pending enactment of adequate user fee legislation. For the construction programs in general, the President's budget reflects a \$0.30 billion lower budget authority than is reflected in CBO current policy. The President's budget also reflects \$0.10 billion higher budget authority for the Bureau of Reclamation construction program (\$0.65 billion budget authority level) than does CBO current policy.
- Conservation and Land Management--The President's budget (\$1.40 billion in budget authority) reflects \$0.80 billion less budget authority than does CBO current policy. The President's budget reflects \$0.45 billion larger timber receipts than does CBO current policy. Also, the President's budget reflects significantly lower funding for the agricultural conservation programs, including a 72 percent reduction -- \$0.15 billion -- in ACP (Agricultural Conservation Program).

- Recreational Resources--The President's budget (\$1.15 billion in budget authority) reflects a \$0.05 billion reduction in budget authority in this area below CBO current policy. This reduction results primarily from reduced funding for park land acquisition and the elimination of the urban park and historic preservation programs.
- Pollution Control and Abatement--The President's budget (\$3.55 billion in budget authority) reflects a \$0.35 billion reduction in budget authority in this area below CBO current policy. This difference results primarily from CBO assuming an increase of \$0.20 billion in the level of funding for the Environmental Protection Agency (EPA) sewage treatment grants. The President's budget also reflects lower budget authority than does CBO current policy for EPA research and development -- \$0.05 billion lower or 35 percent lower and lower budget authority for abatement, control, and compliance -- \$0.10 billion lower or 25 percent lower.
- Other Natural Resources--The President's budget (\$1.50 billion in budget authority) reflects a \$0.20 billion reduction in budget authority in this area below CBO current policy. This difference results primarily from a \$0.15 billion reduction in the National Oceanic and Atmospheric Administration funding to the President's budget level of \$0.75 billion in budget authority.

MAJOR ISSUES

1. Agricultural Conservation and Environmental Protection Programs

A major issue in this function will involve the administration's proposal to significantly reduce Federal funding for agricultural conservation and environmental protection programs. The EPA regulatory, enforcement, and research programs have been cut in the President's budget from \$1.30 billion in budget authority in fiscal year 1981 to \$0.95 billion in fiscal year 1983.

2. EPA Sewage Treatment Grants

Another major issue will be whether Congress will turn over to the States in fiscal year 1984 the EPA sewage treatment construction grants program as proposed in the President's New Federalism program.

PERSPECTIVES

The differences in the outyears result mainly from the following:

- EPA Sewage Treatment Construction Grants: The President's budget assumes budget authority levels of \$2.0 billion; whereas, CBO current policy assumes \$2.6 billion.

- Inflation: The President's budget assumes no growth for inflation in the outyears; whereas, CBO current policy assumes growth for inflation.
- Proposed Program Changes: The President's budget for the outyears reflects the program changes the budget recommends in fiscal year 1983. CBO current policy does not reflect these program changes and thus the budget reductions are not reflected.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 350: AGRICULTURE

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	6.65	9.60	6.85	7.35	4.50
Outlays.....	5.55	8.65	4.50	5.10	4.60
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	6.65	4.90	6.15	8.45	7.10
Outlays.....	5.55	13.95	8.35	6.15	7.25
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	+4.70	+0.70	-1.10	-2.60
Outlays.....	...	-5.30	-3.85	-1.05	-2.65

HIGHLIGHTS

This functional category contains the commodity price support -- Commodity Credit Corporation (CCC), Federal Crop Insurance, Agricultural Credit Insurance Fund, and the agricultural research and services programs. President Reagan's fiscal year 1983 budget estimates fiscal year 1983 budget authority at \$6.85 billion--\$0.70 billion more than the CBO current policy base of \$6.15 billion and outlays at \$4.50 billion--\$3.85 billion below the current policy base of \$8.35 billion.

Highlights of the major programs in this function are as follows:

- Commodity Credit Corporation (CCC)--The President's budget increases reimbursement (budget authority) above current policy to the Commodity Credit Corporation (CCC) by \$0.50 billion. This increase results from a requested change in the way the CCC is reimbursed for losses. The President's budget requests that all CCC net realized losses from prior years be reimbursed rather than reimbursing CCC net realized losses only from 2 years prior. The major outlay difference results from the President's budget assuming the commodity price support outlays to be \$1.85 billion -- \$3.65 billion less than the CBO current policy base of \$5.50 billion. The reason for this difference is not known for sure due to insufficient backup data from the administration. The difference probably results from differing assumptions about commodity supply and demand and thus different assumptions about commodity lending activity.

- Other Commodity Price Support Programs--The President's budget requests \$0.25 billion for full funding of the Federal Crop Insurance Corporation's capital stock fund as authorized by law. This request is not assumed in the CBO current policy base. Budget authority and outlays in the President's budget for the Federal Crop Insurance programs are also higher than CBO current policy due to wider crop coverage assumptions in the President's budget. However, this higher funding level is offset by lower funding assumptions in the President's budget than in CBO current policy with regard to the Agricultural Credit Insurance Fund (ACIF). This difference results primarily from differing assumptions about the sale of loan assets from the ACIF to the Federal Financing Bank.
- Agricultural Research and Services--The President's budget assumes about \$0.10 billion lower funding level than does CBO current policy for the agriculture research and services programs. This difference is primarily a result of lower funding assumptions in the President's budget with regards to the extension and animal and plant health inspection programs.

MAJOR ISSUES

1. Commodity Support Programs

The major issue in this area involves the administration's proposal to change the appropriated reimbursement procedure for the Commodity Credit Corporation. This decision could result in the budget authority in the President's budget being reduced \$0.50 billion. Further, estimates of the outlays for agriculture are highly speculative and could be revised up or down due to changes in weather and market conditions.

PERSPECTIVES

The major differences in estimates in fiscal year 1982 and the outyears are due mainly to differing assumptions about the commodity price support activity. The budget authority difference in fiscal year 1982 reflects the President's request for \$5 billion in new borrowing authority for the Commodity Credit Corporation. This request is not reflected in CBO current policy. It appears that based on the current spending pattern of the Commodity Credit Corporation, that the projected outlays of the President's budget may be underestimated in fiscal year 1982 by as much as \$5 billion.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 370: COMMERCE AND HOUSING CREDIT

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	6.55	6.30	3.40	4.25	4.55
Outlays.....	3.95	3.25	1.60	1.30	-0.50
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	6.55	6.65	6.10	7.30	9.55
Outlays.....	3.95	4.55	4.05	4.05	5.50
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-0.35	-2.70	-3.05	-5.00
Outlays.....	...	-1.30	-2.45	-2.65	-5.55

HIGHLIGHTS

This function includes Federal programs which are designed to assist business and commerce and the financing of housing construction. The function also includes the Federal subsidy payments made to the Postal Service and the activities of several regulatory agencies. The major agencies included in this function are the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA) within HUD, the Small Business Administration, parts of the Commerce Department, and the Farmers Home Administration (FmHA) within the Department of Agriculture.

The administration's 1983 budget contains large reductions in housing credit and business support programs. The budget discussion of this function emphasizes the position that these sectors of the economy can best be served by reducing interest rates. Reducing the Federal budget deficit and Federal credit assistance are the methods proposed by the administration to reduce interest rates. In addition, the administration assumes significant amounts of mortgage asset sales and proposes several legislative changes designed to increase offsetting collections. Asset sales and increases in offsetting receipts further reduce budget authority and outlays.

Highlights of the major programs in this function are as follows:

- FHA Mortgage Insurance--The President's budget contains significant changes in the administration of this mortgage insurance program. The budget proposes to focus FHA mortgage insurance on home buyers least likely to be served by private mortgage insurers, especially first-time home buyers. Clearly, the administration expects the FHA share of the mortgage market to continue to decline. Legislation is proposed to collect FHA insurance premiums in an upfront lump sum at the time of settlement.

A home buyer could pay the premium at settlement or add it to the principal total of the mortgage. This change in premium collections is expected to increase receipts by \$695 million in 1983. The administration also proposes to remove the statutory ceiling on FHA mortgage interest rates. An annual limit on mortgage insurance commitments of \$35.0 billion is proposed for 1983. Finally, mortgage and property sales of \$625 million are assumed in 1983.

- GNMA Mortgage Purchases--No new GNMA mortgage purchase commitments are proposed for 1983. This is tied to the administration's proposal in Function 600 to not fund any additional new construction or substantial rehabilitation subsidized housing units. GNMA mortgage purchases are used to finance subsidized housing projects. The 1982 level is \$1.97 billion of mortgage purchase commitments.
- GNMA Mortgage-Backed Securities--GNMA guarantees securities or bonds issued by mortgage bankers which are collateralized by a pool of FHA and VA mortgages. The administration proposes a 1983 annual limit of \$38.4 billion for GNMA commitments to guarantee mortgage-backed securities. This is a 20 percent reduction from the administration's revised 1982 level of \$48.0 billion and a 44 percent reduction from the congressionally enacted 1982 limit of \$68.2 billion.
- Rural Housing--The proposed 1983 budget includes large reductions in the amount of rural housing loans entered into by the FmHA. Proposed direct loan obligations for 1983 would total \$1.14 billion, a 69 percent decrease from the 1982 level of \$3.73 billion. In addition, all new rural housing loans would be targeted to lower income households. Loans to moderate income households would be eliminated.
- Section 202 Housing for the Elderly or Handicapped--HUD makes direct loans to finance the construction of housing projects for lower income elderly and handicapped tenants receiving section 8 rent subsidies. The administration proposes a 1983 program level of \$453 million of direct loan commitments to finance 10,000 new dwelling units, a 45 percent decrease from the 1982 levels of \$819 million and 16,933 units, respectively. In addition, the administration estimates that \$544 million of offsetting receipts will be received in 1983 from the sale of section 202 mortgages.
- Postal Subsidy--The 1983 subsidy payment to the Postal Service proposed in the budget is \$500 million, a 40 percent reduction from the 1982 appropriation of \$834 million. This proposal would complete the phaseout of the public service subsidy and further reduce the foregone revenue subsidy. In addition, for the first time, the administration proposes an annual limit of \$1.0 billion on the amount which the off-budget Postal Service may borrow from the Federal Financing Bank.
- SBA Business Loans--The administration proposes 1983 annual credit limits for SBA business loans of \$41 million for direct loans and \$2.70 billion for guaranteed loans. The direct loan limit would be an 82 percent reduction from the 1982 level of \$225 million. The loan guarantee limit would be a 10 percent reduction from 1982.

- Commerce Department Fees--The administration is proposing, beginning in 1983, to increase patent and trademark fees to cover 100 percent of the cost of processing applications. Also, it is proposed to promote the commercial use of government-owned patents by licensing those patents to the private sector. These two fee increases are estimated to generate \$41 million of offsetting receipts in 1983.

MAJOR ISSUES

1. FHA Mortgage Insurance

The President's budget clearly envisions a decline in the role of FHA mortgage insurance in housing markets. It is assumed that private mortgage insurance will grow and take the place of FHA, except for sectors of special need like distressed inner cities or first-time home buyers. The administration proposes an annual limit of \$35.0 billion on new insurance commitments in 1983, a 12 percent decrease from the 1982 limit enacted by Congress. This proposed narrowing of the focus of FHA mortgage insurance comes at a time when housing construction and finance are at depressed levels.

Further, the administration is proposing two changes in the management of FHA insurance. The statutory ceiling on FHA mortgage interest rates would be removed, allowing the rate to float with the market. Starting in 1983, premiums on new FHA insurance contracts, which are now paid monthly, would be made in an upfront lumpsum payment. Home buyers could either pay the premium at settlement or have it added to the mortgage. HUD assumes virtually all borrowers would finance the premium through their mortgage. The net effect on the monthly payments of home buyers is unknown at this time, however. Payments would be reduced by the elimination of the monthly premium and increased by the larger mortgage amount. Full details on the calculation of the upfront premium are yet to be supplied by HUD. Mortgage originators are expected to favor the proposal because it would reduce their administrative costs. The change in premium collections is estimated to yield an additional \$695 million of offsetting receipts in 1983.

2. Mortgage Asset Sales

The administration assumes large amounts of mortgage asset sales in 1983. These sales generate offsetting receipts. The mortgages bear below market interest rates as a rule and must be sold at a discount. The discounts can be as much as 50 percent. Further, mortgage sales can influence the supply of credit available for new mortgage originations. The proposed 1983 sales receipts are 73 percent more than actual 1981 receipts. The following table summarizes the President's budget estimates of receipts (reduction in outlays) from mortgage sales in major mortgage loan programs:

	1981 <u>Actual</u>	1982 <u>Est.</u>	1983 <u>Est.</u>
GNMA tandem mortgages	1,170	1,401	1,413
FHA property and mortgage sales	307	486	625
Section 202 housing for the elderly	...	...	544
FmHA rural housing loans	<u>44</u>	<u>46</u>	<u>44</u>
Total	1,521	1,933	2,626

3. GNMA Guarantees of Mortgage-Backed Securities

The administration proposes reductions in the amount of GNMA guarantees of mortgage-backed securities issued by mortgage bankers. The proposed 1983 limit of \$38.4 billion is 20 percent less than the President's revised proposal of \$48 billion for 1982 and 44 percent less than the 1982 limit of \$68.2 billion enacted by the Congress. The sale of securities or bonds backed by FHA or VA mortgages is an alternative to selling actual mortgages for mortgage bankers. Mortgage-backed securities give mortgage bankers a wider range of potential buyers. The administration believes that reducing GNMA guarantees will encourage the growth of conventional, unguaranteed mortgage-backed securities.

4. GNMA Mortgage Purchases

The administration proposes to eliminate new GNMA mortgage purchase commitments in 1983. This proposal is directly tied to the subsidized housing proposal in Function 600 not to enter into anymore contracts to subsidize newly constructed or substantially rehabilitated housing projects. GNMA mortgage purchases provide financing for such subsidized housing projects. The 1982 level of activity is \$1.97 billion of new mortgage purchase commitments.

5. Postal Subsidy

The budget proposes a 1983 postal subsidy of \$500 million. This amount would entirely support below cost mail rates for nonprofit mailers and free delivery for the blind and handicapped, the so-called "foregone revenue" subsidy. The public service subsidy, which subsidizes 6 full days a week of mail deliveries and cost ineffective rural post offices, would be eliminated. The Postmaster General has indicated that the loss of this subsidy would be absorbed without reducing mail deliveries. The proposed 1983 appropriation is 40 percent below the 1982 appropriation of \$834 million, which is in turn 38 percent below the 1981 appropriation of \$1,343 million. The administration's budget continues to assume a 1982 rescission down to a revised level of \$619 million. This rescission was first proposed in the President's September reduction package; however, the 45-day period for congressional consideration has expired.

6. Rural Housing

The President's 1983 budget proposes to reduce new direct loan obligations for rural housing loans by 69 percent from \$3.73 billion in 1982 to \$1.14 billion in 1983. The 1983 loans would be targeted solely to lower income households. No loans would be extended to moderate income households. The budget also assumes that the FmHA will enforce a "credit-elsewhere" test, extending housing loans only to those who demonstrate they cannot obtain mortgage credit from any other source.

PERSPECTIVES

A major portion of this budget function is intended to provide a basic framework for the housing construction and finance industries. The administration is emphasizing the role of the private sector in residential construction and in underwriting mortgage finance. The budget also emphasizes the positions that high interest rates are the greatest threat to the housing industry and that reducing Federal expenditures and credit assistance programs are the best ways the Federal Government has of reducing interest rates.

Housing starts in 1981 were 1.09 million units, the lowest annual rate since World War II and down 16 percent from the 1980 level of 1.29 million housing starts. The most recent cyclical peak in housing starts was 2.02 million units in 1978.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 400: TRANSPORTATION

(In billions of dollars)

	<u>1981 Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	24.90	21.00	19.10	18.75	19.45
Outlays.....	23.40	21.25	19.65	19.15	19.40
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	24.90	20.10	21.75	22.80	23.90
Outlays.....	23.40	21.00	20.90	21.80	22.65
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	+0.90	-2.65	-4.05	-4.45
Outlays.....	...	+0.25	-1.25	-2.65	-3.25

HIGHLIGHTS

This function includes highways, mass transportation, rail, air, water, and general transportation safety programs. The President's request for function 400 for fiscal year 1983 is \$19.1 billion in budget authority and \$19.65 billion in outlays. This is a \$1.90 billion or 9 percent decrease in budget authority compared to the President's fiscal year 1982 estimates, and a \$1.6 billion or 8 percent decrease in outlays. The President's budget contains major policy changes in every transportation mode.

Highlights in the major programs are as follows:

GROUND TRANSPORTATION

- Federal Highway Improvement Construction and Safety Programs--Funding for these programs is \$8.05 billion in new budget authority and \$8.30 billion in outlays. This is \$567 million or 7 percent less than the President's fiscal year 1982 budget authority estimate. The President proposes to direct funds towards completion and rehabilitation of the Interstate System, while giving greater responsibility to State and local governments to build and maintain highways that serve State and local traffic. New budget authority for interstate construction would be increased by \$300 million. Resurfacing, restoring, rehabilitation and reconstruction funding would be \$600 million. The President proposes elimination of the highway beautification, railroad-highway crossings demonstration projects and territorial highways. New budget authority for these programs was approximately \$21 million in fiscal year 1983. Highway safety programs would receive a

\$1 million increase in new budget authority over the President's fiscal year 1982 estimates, which represent an increase of less than one-half of one percent. Outlays would decline by 25 percent. Major initiatives include the development of State and local programs in the prevention of alcohol abuse and the use of seatbelts.

All highway programs, with the exception of the interstate program, are scheduled for return to the States in the "New Federalism" initiative.

- Mass Transit--Funding is \$3.2 billion in new budget authority and \$3.2 in outlays for mass transit programs. This is a reduction from the President's fiscal year 1982 estimates of \$344 million or 10 percent in budget authority and \$569 million or 16 percent in outlays. Policy proposals include the elimination of formula grants for operating expenses over three years, and the direction of construction grants towards modernization and repair of existing transit systems. No funds are proposed for new rail system starts in the fiscal year 1983 budget. The fiscal year 1982 program level for new rail starts is \$180 million.

The President's budget proposes, as did the fiscal year 1982 budget revision, a phaseout of mass transit operating assistance.

- Capital grants of \$100 million are proposed in "Stark-Harris" funds for the Washington Metrorail system. These funds will only be available, according to the administration, if local governments provide "stable and reliable" revenue sources for operating costs of the Metro system. All mass transit programs are designated for inclusion in the programs to be returned to the States under the "New Federalism" proposal.
- Railroads--Funding for railroad programs totals \$814 million in new budget authority and \$1.2 billion in outlays. This represents a reduction of \$1.15 billion, or 58 percent, in new budget authority from the administration's fiscal year 1982 estimates. Outlays would be reduced by \$1.05 billion or 47 percent. Most of this reduction is attributable to settlements in fiscal year 1982 for rail litigation associated with the bankruptcy of the Penn Central and several smaller railroads. No further settlements are expected in fiscal year 1983.

Amtrak funding would be reduced from \$735 million in budget authority for fiscal year 1982 to \$600 million in fiscal year 1983. This represents an 18 percent reduction. The budget proposes \$535 million for operating expenses and \$65 million for capital grants.

Conrail showed a profit for the first time in the last two quarters of fiscal year 1981. No new operating subsidies are proposed for Conrail in fiscal year 1982. The President proposes ending two freight assistance programs: loan guarantees and redeemable preference shares. Elimination is also proposed for Federal funding of the Alaska Railroad.

The administration proposes a reduction in the Northeast Corridor Improvement Project of \$55 million or 32 percent. They have also proposed altering the primary focus of the project from the development of high speed rail service to the assurance of safe and reliable service.

AIR TRANSPORTATION

- Airways and Airports--The fiscal year 1983 budget requests \$3.9 billion for FAA programs. This is a 27 percent increase over fiscal year 1982 budget authority. This includes a \$450 million request for airport development and planning (ADAP) grants used for acquisition and construction projects. As the initial installment of the FAA's twenty-year plan to revamp the air traffic control system, \$725 million is requested for facilities and equipment. This is a 178 percent increase over fiscal year 1982.

The administration is proposing major new taxes in legislation to reauthorize deposits into the airport and airway trust fund. Funding levels for FAA capital programs are contingent, the administration indicates, on enactment of the trust fund taxes and a proposal to recover 85 percent of all FAA costs from the trust fund.

The administration continues to support its proposal to defederalize, or withdraw Federal support from, the 41 largest airports. The President's budget also proposes the elimination of aircraft purchase loan guarantees.

- Air Carrier Subsidies--The administration assumes that only one of the existing two air carrier subsidy programs will remain in fiscal year 1983. That program which provides subsidies for essential air service would receive \$48 million. This represents a 47 percent reduction in air carrier subsidies, for which the President's estimate is \$86 million in fiscal year 1982.

WATER TRANSPORTATION

- Marine Safety and Transportation (Coast Guard)--New budget authority for these programs is estimated at \$2 billion for fiscal year 1983. This is a reduction of \$500 million or 20 percent from fiscal year 1982 estimates. Coast Guard user fees of \$200 million are also proposed.
- Ocean Shipping--New budget authority for these programs would drop to \$480 million from \$489 in fiscal year 1982 estimates. Outlays would drop from \$653 million in fiscal year 1982 to \$527 million in fiscal year 1983.

No new budget authority for ship construction is proposed. Budget authority operating differentials drop from \$415 million to \$407 million. The administration is reviewing the complete maritime policy in an attempt to revitalize the merchant marine system.

CREDIT ACTIVITIES

- Loan Guarantees and Direct Loans--Reductions in direct loans of \$245 million are planned. The fiscal year 1983 direct loans would total \$117 million. Loan guarantee commitments will be reduced from \$693 million in fiscal year 1982 to \$542 million.

MAJOR ISSUES1. Highway Programs

The proposed decrease in funding for Federal highway programs will likely be a major issue. In addition, the administration's proposal to include all highway programs except interstate systems in their "New Federalism" proposal beginning in fiscal year 1984 will likely be a major issue.

2. Mass Transit

The elimination of all mass transit operating subsidies, which would be accelerated this year under the President's proposal, will again be a major issue. Congress debated this issue last year and opposition to this proposal can be expected to continue this year.

The inclusion of all Federally funded mass transit programs in the "New Federalism" package will also be an issue.

3. Amtrak

Because of the general interest that Amtrak generates, the proposed 18 percent reduction in funding will be a major issue in transportation funding debates.

4. Airport and Airway Programs

The ADAP program requires reauthorization during the year. The trust fund taxes also require reauthorization. The level of taxes and the uses of ADAP funds will be major issues during the session. Further, the administration's proposal to defederalize the 41 largest airports will be a major issue.

5. Coast Guard User Fees

The administration is proposing user fees to recapture \$200 million in fiscal year 1983 and \$800 million in 1984 and 1985 for Coast Guard services to boat owners. Congress rejected similar proposals last year.

PERSPECTIVES

Funding for the transportation function would decline in budget authority by nearly \$6 billion from fiscal year 1981 under the President's budget. This represents a 23 percent reduction.

Ground transportation would decline from \$18.25 billion in fiscal year 1981 to \$12.3 billion in fiscal year 1983. This represents a decrease of 32 percent since 1981, and a 14 percent decrease from the President's fiscal year 1982 estimates. Highway improvement and construction would drop from \$9.1 billion in budget authority in fiscal year 1981 to \$7.95 billion in the President's fiscal year 1983 request. This is a 13 percent reduction.

The Urban Mass Transportation Fund would decrease from \$4.65 billion in fiscal year 1981 to \$3.15 billion in fiscal year 1983. This is a reduction of 32 percent reduction over two years.

The total for railroad funding would fall from \$4.15 billion in fiscal year 1981 to \$814 million in the fiscal year 1983 request. This is a reduction of 80 percent, but 88 percent of this reduction is attributable to settlements of railroad litigation against the government.

FAA funding for airport and airways, after dropping 10 percent from fiscal year 1981 to the President's fiscal year 1982 estimate, would then rise 27 percent to \$3.9 billion in fiscal year 1983. The main reason for this is proposed increases for facilities and equipment funding to cover the cost of revamping the air traffic control system.

Coast guard funding, after jumping from \$2 billion in fiscal year 1981 to \$2.5 billion in fiscal year 1982, would now decline to \$2.0 billion. Because of the long-term nature of the contracts involved in the program, operating subsidies for the merchant marine would rise in outlays from \$335 million in fiscal year 1981 to \$454 million in the President's request.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	8.15	6.60	6.65	6.85	7.00
Outlays.....	9.40	8.35	7.25	6.65	6.85
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	8.15	6.80	7.65	8.35	9.00
Outlays.....	9.40	8.85	8.00	8.10	8.20
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-0.20	-1.00	-1.50	-2.00
Outlays.....	...	-0.50	-0.75	-1.45	-1.35

HIGHLIGHTS

This function includes programs to provide for the economic and social viability of urban and rural communities, and regions. Major program areas in this function are:

- 1) Community Development which includes the Community Development Block Grant program (CDBG) and the Urban Development Action Grant program (UDAG) as well as a proposed rental rehabilitation grant initiative.
- 2) Area and Regional Development which includes Farmers Home Administration rural assistance programs, the Economic Development Administration (EDA), Regional Commissions (Appalachian Regional Commission, ARC) and various Indian assistance programs.
- 3) Disaster Relief and Insurance which includes; the Small Business Administration (SBA) disaster loan program, the Federal Emergency Management Agency (FEMA) disaster relief program and hazard mitigation program and the National flood insurance fund.

The President's budget proposes \$6.65 billion in budget authority and \$7.25 billion in outlays for this function which is \$1.5 billion less than fiscal year 1981 budget authority and \$2.15 billion less than 1981 outlays. The large reduction in outlays is, in part, due to a reduced SBA disaster loan program and fiscal year 1981 and 1982 reductions in community development, regional commission and EDA programs.

Highlights of the major proposals in this function are as follows:

- Community Development Block Grants--The President's budget proposes \$3.5 billion for CDBG for each of fiscal years 1982-85. The program provides \$2.4 billion for the large city entitlement program and \$1 billion for the nonentitlement "small cities" program and includes the new State community development block grant program authorized in the 1981 Omnibus Reconciliation bill. The administration proposes termination of all CDBG loan authority.
- Urban Development Action Grants (UDAG)--The President's budget proposes \$440 million in budget authority for each of fiscal years 1982-85. This program level compares to a fiscal year 1981 program level of \$675 million.
- Rental Rehabilitation Grants--The President's budget proposes a new \$150 million rental rehabilitation grant program for each of fiscal years 1983-85. This new initiative requires legislation and would substitute for the current section 8 housing moderate rehabilitation program and the rehabilitation loan fund both of which the administration considers too expensive and inefficient. The \$150 million in budget authority is estimated to support 30,000 units, with no outlays until fiscal year 1984.
- Other Community Development Programs--The President's budget proposes continuation of the Neighborhood Reinvestment Corporation at \$16 million for fiscal year 1983, \$2 million more than 1982. The budget continues support for the Pennsylvania Avenue Redevelopment Corporation at \$12 million in 1983, and continues to support the Urban Homesteading program with a proposal to make multifamily units eligible.

Area and Regional Development:

- Economic Development Administration--The budget proposed \$224 million in fiscal year 1982 for EDA programs; but includes only \$15 million in 1983, reflecting the proposed termination of the programs including all EDA loan activity. The administration believes that the EDA program is insufficiently effective and that development is better served through national economic policy and the CDBG, UDAG and FmHA assistance programs.
- Rural Development--The President's budget proposes \$300 million for direct loan obligations and \$120 million in grants for rural water and waste disposal systems. In addition, \$130 million for additional direct loan obligations is provided for community facilities through the rural development insurance fund. The direct loan activities of the rural development insurance fund would be reduced from \$1.0 billion in 1981 to \$0.4 billion in 1983 and the guaranteed loan program is proposed for termination in 1983.
- Indian Programs--The budget proposes \$1.2 billion in budget authority for the various Indian assistance programs which is about equal to the 1981 level. The administration is proposing two initiatives: 1) A \$5 million program for tribal government development for small tribes; and, 2) A \$10 million program to provide seed money for economic development initiatives involving private sector financing.

- Regional Commissions--The budget proposes elimination of Appalachian Regional Commission programs other than the ARC highway program which would be transferred to the highway trust fund programs.
- Coastal Zone Management--The budget proposes no funding for this program and assumes that States can continue these activities using their own resources.
- SBA Disaster Loans--The budget proposes no new budget authority for SBA disaster loans for fiscal years 1982-85. The administration assumes that statutory changes authorized in the Reconciliation Act of 1981 will reduce program demand and that the repayment of loans to the revolving fund will allow for continuation of the program.
- Disaster Relief--The budget proposes \$325 million in budget authority for each of fiscal years 1982-85 for disaster relief. This program is difficult to forecast as exemplified by the Mount St. Helens disaster funding required in 1980, but the administration foresees a smaller program in large part due to various administrative restrictions and a proposal to cap Federal disaster relief assistance at 75 percent of total costs.
- Flood Insurance--The budget proposes \$62 million in budget authority for fiscal year 1983 for the flood insurance program. The administration is proposing a plan to phase out by 1987 the subsidy for flood insurance.

MAJOR ISSUES

1. Community Development Block Grants

The budget proposed \$3.5 billion for the CDBG program for each of fiscal years 1982-85. The \$3.5 billion compares to a 1981 level of \$3.7 billion and a 1980 level of \$3.75 billion. At issue, is the appropriate funding level in light of the impact of inflation, the overall reduction of Federal categorical aid to States and localities and the current level of economic distress of many State and local economies.

2. Urban Development Action Grants

The budget proposes \$440 million for the UDAG program for each of fiscal years 1982-85. The \$440 million compares to a 1981 level of \$675 million, a 1983 authorization level of \$500 million authorized in the 1981 Reconciliation Act, and somewhat above the \$400 million level appropriated in fiscal year 1979, the first year of the program.

At issue, is the appropriate funding level for this program which has generated substantial private investment and jobs and is a major urban aid program which can be targeted to priority projects in distressed localities.

3. Rental Rehabilitation Grants

The budget proposes a new Rental Rehabilitation Grants program to be funded at \$150 million for each of fiscal years 1983-85.

At issue is whether this initiative which would replace the existing section 8 moderate rehabilitation program and the rehabilitation loan fund will be more efficient. The administration projects a rehabilitation cost of \$5,000 per unit which may be an unrealistic cost figure.

4. Rural Development Programs

The budget proposes elimination of all rural development insurance fund guaranteed loans which totaled \$743 million in 1981 and are estimated to be \$575 million in 1982. The rationale for the direct loan and loan guarantee programs has been the difficulty of access to the capital market for rural areas. The elimination of the loan guarantee program may have substantial adverse impact on many rural areas and warrants close study.

5. Economic Development Administration

The budget proposes termination of all EDA grant and loan programs by fiscal year 1983. The EDA programs were funded at \$476 million in budget authority in fiscal year 1981, and \$224 million is estimated for fiscal year 1982, which reflects reductions included in the Omnibus Reconciliation Act of 1981. The EDA programs serve both rural and urban areas. The programs are discretionary and therefore can be targeted to specific areas and groups. Portions of EDA funding are targeted for Indian assistance and proposed reductions could have strong impact on current Indian development programs. It is not clear why the administration's Indian assistance economic development initiative would differ from the current EDA assistance.

The issue is the basic value of the program and whether even an improved national economy or existing development programs (i.e., CDBG) are able to reach the kind of distressed targets that EDA can and whether there is sufficient overall development funds to deal with distressed subnational economic problems.

6. Appalachian Regional Commission

The budget proposes termination of the ARC service programs and transfer of the ARC highway program to the highway trust fund account.

At issue is the value of continuing the longstanding commitment to reducing poverty, enhancing economic development and providing basic services to the multi-State Appalachian region which reflects economic and social problems which, in the past were deemed to be beyond the ability of any State to accomplish alone.

PERSPECTIVES

The Community and Regional Development function contains a number of programs that are a significant part of overall Federal aid to States and localities.

Of the total 1983 budget authority of \$6.65 billion for this function, \$3.45 billion or 52 percent is for a single program -- the Community Development Block Grant program. This program was originally authorized at \$3,960 million for fiscal year 1982 and is now projected to be \$3.5 billion in 1982 and beyond, consistent

with the fiscal year 1982 HUD Appropriations Act. The CDBG program was initiated in 1974 and consolidated a number of separately funded programs (including urban renewal and model cities) consistent with the current Federalism theme of the administration. However, the administration has reversed the growth of the CDBG program and has substantially reduced the program in real terms if adjustment for inflation is made.

Related to the funding level for CDBG is the issue of the funding level for the Urban Development Action Grant program. The UDAG program began in 1979 at a funding level of \$400 million and increased in fiscal year 1980 to a \$675 million level, reflecting an emphasis on urban initiatives. The program has generally been praised as effective although there has been criticism as to project selection. The UDAG program relies heavily on private enterprise participation consistent with the administration's views on partnership with private enterprise. However, the funding level for this program, like the CDBG program, has been reduced and is straight-lined for 1982 and beyond at \$440 million consistent with the fiscal year 1982 HUD Appropriations Act.

A further aspect of the economic development assistance issue is raised by the administration's proposed termination of the Economic Development Administration and the Appalachian Regional Commission nonhighway programs. These programs are designed to deal with subnational economic disparities and raise the issue that even if the administration's reliance on national economic policy as an economic development tool achieves success, can this success be distributed broadly enough to alleviate persistent regional problems.

The overall reduction in economic assistance funding and other similar programs (particularly targeted discretionary programs) should be viewed in light of the current national recession, the broadness of economic distress among States, localities, regions and some social groups and the overall reduction of Federal aid to States and localities in the President's proposal (\$81.4 billion in outlays for 1983, compared to \$91.2 billion in 1982 and \$94.8 billion in 1981).

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(in billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	30.55	23.50	18.80	17.75	17.75
Outlays.....	31.40	27.75	21.55	19.25	17.80
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	30.55	24.90	28.30	29.70	31.00
Outlays.....	31.40	26.70	27.25	28.85	30.05
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-1.40	-9.50	-11.95	-13.25
Outlays.....	...	+1.05	-5.70	-9.60	-12.25

HIGHLIGHTS

This functional category primarily provides assistance to State and local governments for education, training, and social services programs. In addition, several programs provide assistance to individuals in order that they might continue their educational pursuits. The President's fiscal year 1983 budget is \$9.5 billion in budget authority and \$5.7 billion in outlays below the CBO current policy estimates.

Highlights of major programs in this function are as follows:

- Dismantling the Education Department -- The budget proposes to dismantle the Department of Education (ED) and establish a small non-Cabinet level Foundation for Education Assistance (FEA). A number of programs currently funded by ED are proposed for transfer to other agencies. The fiscal year 1983 budget authority for FEA is proposed to be \$8.8 billion, \$2.5 billion below the comparable fiscal year 1982 Continuing Resolution levels. Some of the major programs which would be included in the Foundation are compensatory education for the disadvantaged (formerly title I of ESEA), State education block grant, vocational and adult education, education for the handicapped, bilingual and minority languages, guaranteed student loans, student financial assistance, Howard University, research and statistics, and civil rights activities. Major budget reductions and legislative proposals for individual education programs are described below.

● Elementary, Secondary, and Vocational Education -- The budget:

1. Proposes legislation to implement a \$500 million vocational and adult education block grant, a \$240 million reduction (32 percent) from the Continuing Resolution levels.
2. Proposes legislation to implement a \$846 million handicapped education block grant, a \$196 million (19 percent) reduction from the Continuing Resolution levels.
3. Includes fiscal year 1982 education program rescissions of \$1.1 billion which reduces levels of funding to the President's September 1982 budget requests.

● Higher Education -- The budget proposes legislation to restrict the guaranteed student loan program with savings estimated to be \$309 million in fiscal year 1982 and \$912 million in fiscal year 1983. Additionally, the administration is proposing to reduce funding for Pell grants by 39 percent and other student aid programs by 60 percent from the Continuing Resolution levels.

● Training and Employment -- The budget:

1. Proposes legislation to implement a \$1.8 billion training and employment block grant, and a \$200 million program for special target groups. This initiative would replace the existing CETA (except for Job Corps), work incentive (WIN), and community services employment for older Americans programs.
2. Requests reductions in the Job Corps of \$200 million (34 percent) which would result in a loss of 10,000 end of year enrollments (31 percent).
3. Proposes a 22 percent overall reduction in training programs from the fiscal year 1982 Continuing Resolution levels.

● Social Services Programs -- The budget:

1. Proposes legislation to transfer rehabilitation services from ED to HHS and requests a reduction of \$300 million (31 percent) from the Continuing Resolution levels.
2. Proposes a reduction of \$476 million (19 percent) in the title XX social services block grant program by capping the entitlement through appropriation language at \$1,974 million.
3. Proposes legislation to implement a child welfare block grant with a funding level of \$380 million. This amount represents a reduction of \$85 million (19 percent) from the 1982 levels for the programs included in the block grant. This block grant would replace the following programs: child welfare services, foster care, adoption assistance, and child welfare training.

4. Proposes no budget authority for Volunteers in Service to America (VISTA).
5. Proposes reductions of \$243 million (71 percent) in the community services block grant program.

MAJOR ISSUES

1. Foundation for Education Assistance

The proposed reorganization of the Department of Education, according to administration briefing materials, is designed to reverse the trend toward increasing Federal involvement in education and return decisions to the State and local level. Ninety-six programs would be transferred to the Foundation and consolidated into 38 separate programs. Twenty-eight existing Federal programs would be transferred to other agencies. The Foundation proposal establishes a total staff of 4,828 in 1983. Staff and overhead expenses would be transferred from ED to gaining agencies along with program dollars. The resulting savings, according to administration documents, would be 1,411 workyears from the 1981 level for the Department of Education to the 1983 budget with annual savings of \$56 million. Below is a list of major programs which will be affected by the elimination of the Department of Education.

<u>Major Programs In the Foundation</u>	<u>Major Programs Transferred to Other Agencies</u>
Compensatory Education	Impact Aid
Handicapped Education	Indian Education
Bilingual Education	Rehabilitation Services
State Education Block Grant	Gallaudet College
Vocational and Adult Education	
Guaranteed Student Loans	
Pell Grants	
Campus-Based Student Aid	
Howard University	

2. Elementary, Secondary, and Vocational Education

The budget requests \$4,417 million to fund elementary, secondary, and vocational education programs. This amount is nearly \$1.4 billion below the 1982 Continuing Resolution levels. The budget proposes legislation to implement two block grants, education for the handicapped and vocational and adult education. Education for the handicapped would be reduced by \$196 million, a 19 percent reduction, and vocational and adult education would be reduced by \$240 million, a 32 percent decrease. Other program reductions include \$951 million for compensatory education, a 33 percent reduction, and \$169 million for impact aid, a 37 percent reduction.

3. Guaranteed Student Loans

The administration budget requests \$2.5 billion for guaranteed student loans (GSL) in 1983, \$912 million below the 1983 current law estimates. The administration proposes \$978 million in 1982 supplemental appropriations. This amount consists of \$1,287 million required because of higher than assumed interest rates offset by savings of \$309 million from proposed program changes.

Four major legislative changes are proposed: (1) raise the loan origination fee from 5 to 10 percent; (2) require an analysis of need for students of all family income levels; (3) eliminate special allowances to lenders 2 years after the borrower leaves school; and (4) require graduate students to borrow at 14 percent under the new auxiliary loan program rather than 9 percent under the regular student loan program. Proposed savings from these measures are estimated to be \$309 million in 1982 and \$912 million in 1983. According to Department of Education estimates, the number of students receiving regular GSL loans would decline by 20 percent from 3.5 million in fiscal year 1981 to 2.8 million in fiscal year 1983.

4. Student Financial Assistance

The fiscal year 1983 budget requests \$1.4 billion for Pell grants and \$400 million for campus-based aid--a \$879 million (38 percent) reduction in Pell grants and a \$673 million (63 percent) reduction in campus-based aid from 1982 Continuing Resolution levels. No funds are requested for supplemental education opportunity grants (SEOG), state student incentive grants (SSIG), and new capital contributions for national direct student loans (NDSL). The maximum Pell grant would be \$1,600, averaging \$778 per grant.

Total Pell grant recipients in academic year 1983-84 would be 1.8 million, a 700,000 reduction from 1982-83. Work-study awards would be 720,000, 230,000 awards below 1982-83. NDSL new loans would be 590,000, a reduction of 210,000 from the 1982-83 school year. No SEOG awards would be made in 1983-84, a reduction of 440,000. Based on the administration's budget proposal, nearly 1.9 million fewer college students would receive financial aid in academic year 1983-84.

5. Training and Employment

The administration's employment and training proposals would (1) consolidate the CETA training programs into a single block grant to the States with a funding level of \$1.8 billion; (2) eliminate the WIN and community services employment for older Americans programs; (3) establish a new special target program with a funding level of \$200 million; and (4) reduce funding for the Job Corps program. Overall, Federal funding for training would decline by 28 percent from the fiscal year 1982 Continuing Resolution levels and 59 percent from the fiscal year 1981 level. Activities such as the summer youth employment, a work experience program for school-aged youths, may be prohibited under the Reagan block grant proposal.

PERSPECTIVE

Appropriations for Function 500 would decline, under the President's proposal, by almost 40 percent from fiscal year 1981 to fiscal year 1983. In the education area, compensatory education would be reduced by 37.6 percent, and student assistance (Pell grants, college work study, and national direct student loans), would be reduced by 53 percent. The number of students receiving compensatory education assistance would be reduced by approximately 15 percent from the fiscal year 1981 levels and the number of students receiving financial assistance would be reduced by 42 percent. Additionally, there would be a 20 percent reduction in the number of students receiving guaranteed student loans.

All training and employment programs would undergo a 67.5 percent reduction from the fiscal year 1981 levels based on the administration's fiscal year 1983 budget. Training programs alone have been reduced by almost 60 percent since fiscal year 1981 and 28 percent since fiscal year 1982.

Social services programs would be reduced by 17 percent from the fiscal year 1981 appropriations level, including a \$1 billion reduction in the title XX program, a \$100 million reduction in aging programs (not including the elimination of the elderly work program), a \$300 million reduction in the rehabilitation services program, and a \$425 million reduction in the community services block grant programs.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES
FUNCTION 550: HEALTH

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	68.95	79.25	77.80	81.35	93.60
Outlays.....	66.00	73.45	78.10	84.90	93.55
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	68.95	83.20	91.90	100.25	112.70
Outlays.....	66.00	77.00	87.55	99.25	113.45
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-3.95	-14.10	-18.90	-19.10
Outlays.....	...	-3.55	-9.45	-14.35	-19.90

HIGHLIGHTS

This function includes the medicaid and medicare programs, which are designed to finance health services for low-income and elderly persons. It also includes health block grants to States which may be used at the discretion of the States to support a variety of health and mental health services. Biomedical research activities, support for training of health care professionals, and consumer and occupational safety and health programs also are supported through the funds in this function. For all of these activities, the President's fiscal year 1983 budget requests a net decrease of \$1.45 billion in budget authority and a net increase of \$4.65 billion in outlays above the President's fiscal year 1982 estimates.

The 1983 levels are a decrease of 1.8 percent in budget authority and an increase of 6 percent in outlays compared to the President's fiscal year 1982 estimates. When compared to the CBO current policy base, the President's request for 1983 reflects decreases of 15.3 percent in budget authority and 10.8 percent in outlays.

The President's budget also indicates that the administration intends to submit recommendations to Congress to reform the health care financing system in order to increase competitive market forces in the system and to help restrain the rate of increase of health care costs. According to the budget, these recommendations are to be made later in the year, and no specific details have been included in the fiscal year 1983 budget requests.

Highlights for the major programs in the function are as follows:

- Health Services Financing -- The President's budget includes \$68.05 billion in outlays for the medicare and medicaid programs. This is 87 percent

of the total funding for programs included in the health function and reflects an increase of 7 percent above the President's fiscal year 1982 estimate for these programs. In recent years medicare has increased at a rate of 16 percent annually and medicaid has been increasing by 15 percent. In order to limit fiscal year 1983 increases to 7 percent, the President's budget proposes a number of reductions in Federal support for medicaid and medicare which will in turn increase the responsibilities of States, recipients and providers. Among the changes proposed for medicare are increases in the patient deductible for supplementary medical insurance payments and in patient out-of-pocket expenses for home health services, and a 2 percent reduction in hospital reimbursement rates. For medicaid, copayments would be required for mandatory services, the Federal government no longer would match State payments for purchase of supplementary medical insurance for low-income elderly persons, and would reduce its matching payments to States for medically needy persons and for optional medicaid services.

- Discretionary and Other Health Programs -- The President's budget requests \$9.8 billion in budget authority for health programs other than medicare and medicaid. This is an increase of \$636 million, 7 percent above the President's 1982 estimate. The increase results primarily from a transfer of the women, infants and children nutrition program, currently administered by the Department of Agriculture, into the maternal and child health block grant. Increased funding of \$145 million also is requested for biomedical research. In anticipation of developing a competitive health plan, the administration also proposes to eliminate the health planning and professional standards review organizations programs (PSRO's). All other discretionary health programs are held at or below their fiscal year 1982 funding levels.

MAJOR ISSUES

1. Proposed Reductions in Medicare

The request of \$50.95 billion in medicare outlays assumes legislative and administrative savings totalling \$2.5 billion in outlays and revenue increases of \$619 million in fiscal year 1983. By 1985, these proposals are projected to save \$7.8 billion in outlays and to increase revenues by \$1.1 billion, annually. The 1983 request is an increase of 11.5 percent above the President's estimate for 1982. Without the proposed legislative and administrative changes, the budget estimates that medicare costs would increase by 16 percent in 1983. The legislative changes proposed include the following:

Increases in beneficiary payments --

- Require persons receiving home health services to pay copayments.
- Increase the supplementary medical insurance deductible on an annual basis according to the increase in the CPI.

- Start medicare eligibility the first full month after the birthday when the person becomes 65 years old rather than at the beginning of the month.

Reimbursement Reductions --

- Reduce by 2 percent all medicare reimbursements for inpatient hospital services.
- Reduce reimbursement for hospital radiologists and pathologists.
- Delay to October of each year the updating of medicare physician reimbursement rates. Limit 1982 increases to 5 percent rather than providing the full 8 percent increase which otherwise would be provided.

Other medicare reductions --

- Require employers to provide the same coverage for their aged workers as they do for all other employees and make medicare the secondary source of coverage for such workers.
- Require Federal workers to pay medicare hospital insurance payroll contributions.

The savings include \$724 million which will be realized through administrative initiatives. The most significant of these initiatives will be improved utilization review on the part of medicare contractors designed to reduce unnecessary hospitalization and other uses of medical care.

The 1981 Omnibus Budget Reconciliation Act included medicare reforms which will achieve an estimated \$1.0 billion in outlays savings in fiscal year 1983. These changes resulted in increased payments for medicare beneficiaries and also reduced provider reimbursement levels. For the beneficiary, the reconciliation changes, together with the impact of inflation, resulted in a 27 percent increase in the deductible payment for the first day of inpatient hospital care. The supplementary medical insurance deductible to be paid by the elderly also increased by 25 percent. For providers, routine hospital cost limits were lowered from 112 percent to 108 percent, and the nursing differential payment for hospitals was reduced.

2. Medicaid Reforms

The President's budget indicates that the administration intends to assume full responsibility for funding and administering the program in fiscal year 1984. In return, the States will assume full responsibility and funding for the food stamps and aid to families with dependent children programs. However, the specific proposal and funding are not included in the President's fiscal year 1983 request.

The funding request of \$17.1 billion in outlays for medicaid included in the President's request assumes legislative and administrative reforms which will achieve savings of almost \$2.0 billion in outlays. By 1985, these proposals will save \$3.7 billion in outlays on an annual basis. Among the reforms is one to limit Federal payments to States for administering the medicaid, aid to families with dependent children, and food stamp programs. Also included are other changes to limit Federal payments to States for services to certain medicaid recipients and to increase recipient copayments, such as the following:

Increases in recipient payments:

- Require recipients to pay copayments for mandatory services.
- Reduce from four months to one month the transition period for newly employed medicaid recipients to be covered under private health insurance before they are dropped from medicaid.

Reductions in Federal Payments to States:

- Eliminate Federal matching to States for purchasing medicare supplementary medical insurance coverage for low-income aged persons.
- Reduce Federal matching by 3 percent for purchase of services for medically needy persons and for purchase of optional services.
- Phaseout Federal matching to States for erroneous medicaid payments.
- Allow States to recover long-term care costs from families and estates of persons who have received such services.

The 1981 Omnibus Budget Reconciliation Act also included reforms in the medicaid program. These reforms will achieve an estimated \$900 million of outlay savings in fiscal year 1983. The most significant of the reforms is a proposal which will reduce Federal medicaid payments to States by 3 percent in fiscal year 1982, 4 percent in fiscal year 1983, and 4.5 percent in fiscal year 1984. The bill also gave States additional flexibility to negotiate hospital reimbursement rates, to purchase some medical services through competitive procurement procedures, and to discontinue coverage for some beneficiaries.

3. Discretionary and Other Health Programs

The President's request of \$9.8 billion in budget authority for all health programs other than medicaid and medicare reflects a net increase of \$636 million over the 1982 estimate. This includes an increase of almost \$600 million which is required to pay the mandatory Federal share of health insurance

premiums for retired Federal workers. The request also indicates that an increase of \$145 million is recommended to support biomedical research, which the administration considers to be a high priority.

The request assumes the transfer of the women, infants, and children program (WIC), currently administered by the Department of Agriculture, to the Department of Health and Human Services where it will be added to the maternal and child health block grant. The consolidation results in a new block grant of services for women, infants, and children. In fiscal year 1982, funding for these programs within the budgets for the two departments totalled \$1.30 billion in budget authority. For fiscal year 1983, the President has requested \$1.0 billion for the new block grant, a decrease of \$300 million.

Offsetting the increases in the discretionary and other health programs are decreases, primarily in the programs of the Public Health Service. Almost \$300 million is reduced from the National Health Service Corps Scholarship, preventive health services for American Indians, mental health and drug abuse training, and nursing assistance programs, and the closure of the remaining Public Health Service hospitals. Both the health planning and Professional Standards Review Organizations (PSRO) programs are eliminated. In addition, funding for the remaining health education and training programs is reduced.

The Omnibus Budget Reconciliation Act of 1981 consolidated 21 categorical health programs into four block grants. In addition, both the Reconciliation Act and the Continuing Resolution, under which most of the health programs currently are operating, have reduced funding for discretionary health programs below their 1981 levels. For example, categorical service programs in the Health Services Administration have been reduced in 1982 by 23 percent below their 1981 level.

PERSPECTIVES

The President's request of \$78.1 billion in outlays for health programs included in this function is 10.3 percent of the total Federal budget outlays. The level proposed reflects an increase of 6 percent above the fiscal year 1982 funding level. For the period fiscal year 1977 through 1981, Federal spending for health care increased an average of 15.9 percent a year. For the Nation as a whole, the latest available data on health care expenditures is for calendar year 1980 and reflects an increase of 15.2 percent above 1979. A major factor in the rate of increase in health care costs is hospital expenditures, which increased by 18.5 percent for the Nation as a whole and by 20.1 percent in Medicare for 1981. For 1983, the President's budget assumes that the rate of Federal spending for health programs can be reduced primarily through reductions in the health financing programs, Medicaid and Medicare, and through consolidation and reductions in discretionary health programs, a number of which are to be funded as block grants to the States.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 600: INCOME SECURITY

(In billions of dollars)

	1981 Actual	1982	1983	1984	1985
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	249.90	252.30	257.60	281.90	310.15
Outlays.....	255.10	250.85	261.75	274.80	290.10
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	249.90	261.95	286.00	306.25	340.30
Outlays.....	255.10	252.90	272.70	289.85	313.60
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-9.65	-28.40	-24.35	-30.15
Outlays.....	...	-2.05	-10.95	-15.05	-23.50

HIGHLIGHTS

Programs in the Income Security function provide cash and in-kind benefits to people who need temporary or permanent income assistance.

President Reagan's budget would:

- Provide outlays of \$169.95 billion for social security beneficiaries, an increase of \$15.30 billion over fiscal year 1982. These outlays will fund an increase of 300,000 in the number of beneficiaries and accommodate the automatic cost-of-living increases of 8.1 percent projected for June 1982 and 6.5 percent projected for June 1983. The budget proposes no benefit changes for social security and notes that additional legislation will be needed to finance benefits in the Old Age and Survivors Insurance program after September 1983.
- Provide outlays of \$26.75 billion for other retirement and disability programs, a decrease of \$0.20 billion below the administration's estimate for fiscal year 1982 and \$2.55 billion below the current services estimate for fiscal year 1983. Most of the reduction results from the President's proposal to take the industry component of the railroad retirement pension off the Federal budget, which would reduce revenue \$1.70 billion and outlays by \$2.00 billion in fiscal year 1983. Outlay savings of \$0.50 billion in fiscal year 1983 would be achieved by limiting cost-of-living increases for Federal retirees.
- Provide outlays of \$22.60 billion for unemployment compensation, a decrease of \$2.60 billion below the President's estimated level of \$25.20 billion for the current fiscal year. Most of the decrease reflects the anticipated recovery from the current recession.

- Provide outlays for \$13.80 billion for food and nutrition programs which represents a decrease of \$2.4 billion below the actual spending in fiscal year 1981 and a decrease of \$3.45 billion below the President's current services estimate for fiscal year 1983. Among the reductions are: \$2.25 billion in the Food Stamp program, \$0.90 billion in food programs including \$0.40 billion in the overall budget from the transfer of the Special Supplemental Food (WIC) program to the Maternal and Child Health Block Grant, and \$0.30 billion from reductions to other child nutrition entitlement programs.
- Provide outlays of \$14.75 billion for means-tested cash assistance programs, which include benefit reductions totaling \$1.6 billion.
- Provide outlays of \$1.30 billion for the Low-Income Energy Assistance program which is a reduction of \$0.45 billion below the level approved in the Continuing Resolution for fiscal year 1982.
- Provide outlays of \$8.90 billion and negative budget authority totaling -\$3.90 billion for subsidized housing. The negative budget authority reflects the financial adjustments associated with terminating commitments for new construction and reorienting what remains of the program toward rental assistance for existing housing at a lower program level than in previous years.

MAJOR ISSUES

1. Changes to Entitlement Programs

The President's budget proposes net savings in entitlement and associated benefit programs of \$5.10 billion in outlays and deficit reduction in fiscal year 1983 from the following changes:

- Federal Employment Retirement and Disability

Fiscal year 1983 savings of \$0.50 billion in outlays would be achieved by limiting cost of living increases (COLA's) of retired Federal workers. The major change would limit COLA's to the annual pay increase given current Federal workers. The President proposes to limit the October 1982 pay raise to 5 percent. In addition, the President proposes not to provide an annuity increase to all current retirees whose annuities are 120 percent or more of that received by a newly retired person who served at the same grade. The Omnibus Budget Reconciliation Act of 1981 limited cost of living increases to once a year which reduced fiscal year 1983 retirement costs by \$0.40 billion. The President also proposes outlay savings of \$50 million from changes to the Federal Employee Compensation program similar to those approved by the House last year but deleted in the conference on the Omnibus Budget Reconciliation Act of 1981. This is the worker compensation program for Federal workers who are injured on the job.

- Railroad Retirement

The President proposes to remove the railroad retirement system from the unified budget and to eliminate the Railroad Retirement Board. The Social Security Administration would assume responsibility for administering the portion of the current benefit which is equivalent to social security. A

new private pension corporation would be created to administer the industry pension as well as the dual benefit, often termed the windfall provision. The windfall benefit, which is financed with Federal funds, is the unearned benefit provided to persons who are vested under both social security and railroad retirement. Funding of the windfall provision would be limited to \$350 million, which is \$29 million below the amount approved in fiscal year 1982 and \$54 million below the CBO current policy estimate. The Omnibus Budget Reconciliation Act of 1981 included a major restructuring of the benefit and tax provisions of the railroad retirement system which was designed to make the system self-sufficient without additional Federal subsidies beyond what is currently provided for the windfall benefit.

The reduction in the Federal deficit by removing the railroad retirement system from the budget would be \$250 million. This amount is the difference between the payroll tax revenue and the benefit outlays which would be removed from the budget.

● Unemployment Compensation

The President proposes several modifications to changes made to unemployment assistance programs in the Omnibus Budget Reconciliation Act of 1981 which would achieve net outlay savings of \$0.15 billion in fiscal year 1983. First, the President proposes to terminate benefits under the Trade Adjustment Assistance program unless a worker is in training. In 1981, the Congress approved the President's proposal to reduce benefits in this program to the amount which is payable under regular State unemployment compensation programs. Second, the President proposes to limit unemployment benefits for former military personnel to persons who were involuntarily discharged under honorable conditions because of disability or reduced military force levels. The Omnibus Budget Reconciliation Act of 1981 eliminated unemployment benefits for most former servicemen but created an inequity by permitting benefits to be paid to persons who were not allowed to reenlist because of a record of indiscipline or failure to meet military standards.

The President also proposes to limit benefits under the Redwood Employee Protection program to workers who became unemployed as a result of the expansion of the Redwood National Park in California prior to 1979. A special program was created in 1978 for workers who became unemployed as a result of the expansion of the Redwood National Park. Fiscal year 1983 savings from this proposal would be \$5 million in budget authority and outlays.

● Food Stamps

The President proposes legislative savings of \$2.80 billion in budget authority and \$2.75 billion in outlays from a number of changes to this program which is offset in part by an increase of \$0.50 billion reflecting the increased costs to the Food Stamp program from benefit reductions in other programs. Technically, the Food Stamp program is not an entitlement because funding is subject to an authorization ceiling, but the administration has included the program in its review of entitlements. Savings of about \$0.60 billion would be achieved by

eliminating the deduction of 18 percent of gross earnings which is allowed food stamp recipients who work. About 17 percent of all food stamp families include a worker. In the Omnibus Budget Reconciliation Act of 1981, this earnings disregard was reduced from 20 percent to 18 percent.

Savings of about \$1.00 billion would be achieved by increasing from 30 to 35 percent of income the benefit reduction rate (in effect, the rate at which food stamp benefits are taxed). Virtually all food stamp participants would experience a 5 percent reduction in their disposable income from this proposal. It should be noted that these two food stamp proposals, together with the reductions which were enacted last year in the Aid to Families with Dependent Children program, could create certain financial disincentives to work for families who have earnings and receive benefits under these two programs. After working for 4 months, a mother on AFDC would lose more than a dollar in benefits for every dollar of earnings.

Savings of about \$0.20 billion would be achieved by counting as income benefits under the Low-Income Energy Assistance program. About \$0.15 billion will be saved by eliminating the minimum benefit of \$10 a month which is currently provided to one and two person families who are primarily elderly persons.

The Omnibus Budget Reconciliation Act of 1981 included major changes in the Food Stamp program which at the time were estimated to save \$1.65 billion in fiscal year 1982 and \$2.05 billion in fiscal year 1983. These savings estimates are no longer valid because the cost of the program has increased by \$1.30 billion in fiscal year 1982 alone because of higher unemployment due to the recession and the impact on the Food Stamp program of benefit reductions which were made in other programs. The President proposes to limit the fiscal year 1982 increase to \$1.05 billion by making the proposed benefit reductions effective July 1, 1982.

- Child Nutrition and School Lunch

Savings of \$0.35 billion in budget authority and \$0.30 in billion in outlays are proposed from entitlement changes in the Child Nutrition and School Lunch program. These include termination of the Special Milk and Summer Feeding programs as well as the creation of a special block grant for the School Breakfast and Child Care programs. Both the Special Milk and Summer Feeding programs were substantially reduced last year in the Omnibus Budget Reconciliation Act of 1981. The President does not propose any further reduction in the subsidy provided to non-needy children through the School Lunch program. In 1981, this subsidy was reduced by about 40 percent.

- Cash Assistance (AFDC Child Support Enforcement and SSI)

Savings of \$1.60 billion in budget authority and in outlays are proposed from entitlement change in the AFDC, Child Support Enforcement, and SSI programs.

The AFDC reductions continue the policy reorientation which began with the benefit changes enacted last year. One part of this reorientation is to shift from providing financial incentives for welfare recipients to work toward a policy of strict work requirements and loss of benefits if able-bodied recipients do not work in return for receiving welfare benefits.

For example, the Community Work Experience Program by which recipients can be required to work off their AFDC grant was established as a State option in the Omnibus Budget Reconciliation Act of 1981. The President's budget proposes that States be required to establish this program. A second part of this reorientation in the President's proposals is to eliminate overlapping benefits and to base AFDC benefits on all income available to a household. Some examples include counting assistance under the Low-Income Energy Assistance program as income in determining AFDC benefits, which is analogous to one of the food stamp reduction proposals, as well as including the income of all unrelated adults as income in determining AFDC benefits.

For the Child Support Enforcement program, the President proposes to restructure the Federal matching system by designing a formula which will reward States both for increasing collections and also for operating cost-effective programs. In addition, the President proposes to require that reimbursement to States in non-AFDC child support cases be 6 percent of the amount collected. Under current law, the Federal Government pays the administrative costs associated with non-AFDC cases.

The President proposes changes to the Supplemental Security Income program which would focus disability benefits more on the severely disabled. Eligibility criteria would be changed to require that permanent disability be defined as a prognosis of at least 24 months of disability, rather than the 12 months which is currently used in both the social security and SSI disability programs. In addition, eligibility would be based on a preponderance of medical factors rather than taking into account education and work experience as is done under current law.

2. Changes in Discretionary Program Levels

The President proposes savings of \$24.60 billion in budget authority and \$1.65 billion outlays below the CBO current policy estimates for fiscal year 1983 through the following:

- Subsidized Housing

The subsidized housing program would be restructured by eliminating funding for new construction or substantial rehabilitation except for 10,000 units for the elderly and limiting funding to a new housing voucher to provide rent supplements for 112,000 units in fiscal year 1983. The funding reduction would be \$23.75 billion in budget authority and \$0.90 billion in outlay below the CBO current policy estimate for fiscal year 1983. President Carter's fiscal year 1982 budget requested 260,000 units of subsidized housing, of which half would have been new construction and half would have been existing. The current proposal for fiscal year 1982 is about 220,000 units, of which 22,500 will be new and the rest will be existing. For fiscal year 1983, the administration proposes 121,600 units. Most of the units proposed for fiscal years 1982 and 1983 are in fact reprogramed from types of subsidies which administration proposes to eliminate. This is the reason for the rescission and negative supplementals totaling \$11.5 billion in budget authority in fiscal year 1982.

The President also proposes to count food stamp benefits as income in determining rent in subsidized housing projects. As this change along with the rental increases to 30 percent of income which the Congress approved last year is phased in, the maximum increase in rent will be limited to 20 percent a year. Under current law, the maximum rent increase is 10 percent a year.

- Special Supplemental Food (WIC) program

The President proposes that this program be included in the existing Maternal and Child Health Care block grant. The CBO current policy estimate for this program is \$1.05 billion in budget authority and outlays. About \$0.65 million in budget authority and outlays is included in the block grant to cover the program. The administration in March proposed that funding for this program be reduced to \$0.70 billion in budget authority and outlays in fiscal year 1982, but this reduction was rejected.

- Low-Income Energy Assistance

The President proposes that funding for this program be reduced to \$1.30 billion in budget authority and outlays, which is a reduction of \$0.45 billion below the level approved in the Continuing Resolution for Fiscal Year 1982. The Committee on Appropriations on February 4, 1982, approved a supplemental totaling \$0.10 billion for this program to bring funding up to the authorized level of \$1.85 billion.

3. New Federalism

The President's budget schedules do not reflect the impact of the proposal to transfer responsibility for the funding of the AFDC and Food Stamp programs to the States starting in fiscal year 1984, with the Federal government would assuming exclusive responsibility for the financing of the Medicaid program. Several of the initiatives in the President's budget, however, would impact on this proposed transfer.

- Quality Control

The President's budget assumes outlay savings of \$0.85 billion in fiscal year 1983 by making States responsible for erroneous payments in excess of 3 percent in the Food Stamp and AFDC programs. (This proposal would also apply to the Medicaid program which is covered in Function 550: Health.) The allowable error rate would decline by 1 percentage point a year, so that after 1985, no Federal matching would be allowed for erroneous payments. The current error rate in AFDC is 7.3 percent and in food stamps it is 10.4 percent. (In effect, to the extent that States are unable to achieve the error rate targets, they would begin to assume funding responsibility for a portion of these programs prior to fiscal year 1984.)

- Combined Welfare Administration

The President's budget assumes budget authority and outlay savings of \$0.30 billion in the Income Security function by combining into one payment the Federal reimbursement for the administrative costs associated with the Food Stamp, AFDC, and Medicaid programs. The reimbursement for these administrative expenses would be 95 percent of the Federal share of fiscal year 1982 administrative expenses for these programs. This reduction would be 12.3 percent below the administration's estimate of the current services requirement in fiscal year 1983. No data are available at this point to assess the impact which the reduction in funding for State and local administrative costs will have on the State's capability to achieve the quality control objectives proposed by the administration.

- Impact of Entitlement Reductions

If the President's proposed reductions in the Food Stamp and AFDC program are enacted, the cost of operating these programs by the States would be reduced by \$4.60 billion in fiscal year 1984 when funding responsibility would be transferred under the President's proposal.

PERSPECTIVE

The Congressional Budget Office estimates that the budget decisions made last year reduced outlays for programs in the Income Security function by \$10 billion below the original CBO baseline projections for fiscal year 1982. Although spending was reduced in virtually every program area, the means-tested assistance programs were reduced relatively more than the social insurance programs, the largest of which is social security.

Only 17 percent of the outlay savings came from social security even though this program represents 62 percent of all income security outlays in fiscal year 1982. The largest single change to the social security benefits was the phaseout of the student benefit. Another change with significant long-term budgetary implications was the elimination of the minimum benefit for new recipients.

The outlay savings from changes to the unemployment compensation system were estimated to be \$1.5 billion. Current savings would be higher because the economic assumptions used in the CBO baseline projections and the First and Second Budget Resolution did not assume a recession. Restricting trade adjustment assistance benefits, to the benefit levels provided under regular State unemployment benefits was estimated to save \$1.30 billion.

Most of the changes made last year, affect the means-tested programs; the Federal share of AFDC benefits was reduced by \$0.65 billion and food and nutrition programs, including food stamps were reduced by \$3.2 billion. Funding for the Low-Income Energy Assistance program was reduced by \$0.50 billion below the CBO baseline estimate.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 700: VETERANS BENEFITS AND SERVICES

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	23.15	24.80	25.65	26.30	27.05
Outlays.....	23.00	24.15	24.40	25.60	26.95
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	23.15	24.15	25.20	25.95	26.95
Outlays.....	23.00	23.75	24.70	25.50	26.55
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	+0.65	+0.45	+0.35	+0.10
Outlays.....	...	+0.40	-0.30	+0.10	+0.40

HIGHLIGHTS

President Reagan's budget proposal for fiscal year 1983 contains \$25.65 billion in budget authority and \$24.4 billion in outlays to provide compensation payments to service-disabled veterans; pension benefits to needy wartime veterans who are aged or disabled; education and training opportunities; and hospital and medical care. The fiscal year 1983 budget authority level for this function reflects an overall net increase of approximately \$0.5 billion above the current policy projection for fiscal year 1983, and an outlay reduction of \$0.3 billion from the estimate of current policy spending in fiscal year 1983.

Highlights of the major programs in this function are as follows:

- Compensation -- The budget proposes an 8.1 percent cost-of-living increase in compensation payments to veterans with service-connected disabilities, effective October 1, 1982, with a first year cost of \$0.7 billion. The budget also proposes to terminate dependents' benefits to veterans with disabilities rated less than 50 percent, at a Federal savings of approximately \$0.15 billion in fiscal year 1983. The budget projects fiscal year 1984 savings from legislation to terminate unemployability benefits to compensation beneficiaries who are also receiving another Federal disability or retirement benefit. Under current law, compensation beneficiaries who are deemed unemployable receive the 100 percent disability payment, even though their disability rating may actually be 60 to 90 percent. This legislation is scheduled to take effect in October, 1983.

- Pension -- Pensions for veterans with non-service-connected disabilities are scheduled to rise by 8.1 percent in June 1982. The budget proposes savings of \$0.05 billion in fiscal year 1983 from the elimination of adult student survivor benefits, making benefits payable starting in the first full month of entitlement, and rounding benefits down to the nearest dollar.
- Readjustment Benefits -- The budget proposes savings of \$25 million from the termination of correspondence benefits and duplicative dependents' allowances.
- Housing -- The budget includes \$0.1 billion in savings from establishing a 0.5 percent loan origination fee to veterans receiving VA mortgage guarantees.

MAJOR ISSUES

1. Compensation

The President's budget provides \$771 million in budget authority and \$707 million in outlays to fund an 8.1 percent cost-of-living adjustment (COLA) in compensation payments to veterans with service-connected disabilities, effective October 1982. Pension benefits for aged or nonservice disabled needy veterans are slated to rise automatically by 8.1 percent in June 1982.

2. Education and Training

The budget contains \$1.65 billion in budget authority and \$1.55 billion in outlays to fund veterans education and training programs in fiscal year 1983. The request represents a decrease of approximately \$300 million from the fiscal year 1982 level and reflects a normal decline in caseloads due to the 10-year limit on readjustment benefits.

3. Hospital and Medical Care

The budget contains \$8.3 billion in budget authority and \$8.1 billion in outlays for VA hospital and medical care, administration, and construction. This is an increase of approximately \$700 million in budget authority and \$500 million in outlays above the fiscal year 1982 level. The bulk of the medical care increase is for employee pay raises and other inflation costs. The average employment is expected to increase by 1,259, up to 187,546, and staffing ratios will improve slightly. The number of inpatients treated is projected to rise by about 5,300, and outpatient visits will increase by 92,000, a significant jump. The length of hospital stay continues to drop, as does the average daily census in VA hospitals. Operating beds in nursing homes will be about 9,600, up 442 over 1982. There will be two nursing homes opening in the fiscal year 1982 and four new activations in fiscal year 1983. The 1983 nursing homes will be located in Richmond, VA; Hines, IL; Salt Lake City, UT; and Wilkes-Barre, PA.

The largest percentage increase in this function, as it was last year, is in the medical facility construction programs. There is a \$630 million request, which is a \$140 million increase in budget authority above fiscal year 1982, a 29 percent rise. The budget request includes funds for renovations, alterations, four new nursing homes (Boise, ID; Hines, IL; San Antonio, TX; and St. Louis, MO), and one replacement hospital in Albuquerque, NM.

VA hospital and medical care programs, which comprise about one-third of the VA budget, are the primary sources of discretionary spending in this function.

4. Housing

The budget forecasts housing loan sales of slightly over \$1 billion in fiscal year 1983. These are loans acquired from VA guaranteed or insured mortgages in default status. Sales are estimated to be \$1,048 million in fiscal year 1983, up from \$43 million in fiscal year 1981, and \$108 million in the current fiscal year.

PERSPECTIVE

The Veterans Benefits and Services function has increased by approximately 15 percent since fiscal year 1980, rising from \$21.2 billion to \$24.4 billion in estimated outlays. Although the veterans function has remained a relatively constant percentage of the total Federal budget since fiscal year 1980, around 3.5 percent, the trend is slightly downward.

Income security for veterans has kept pace with inflation as pensioners received automatic cost-of-living increases and Congress raised compensation benefits to provide protection against erosion of real benefits and provide greater equity with pensioners. The number of veterans compensation beneficiaries continues to increase and the pension caseload slowly declines.

The estimate for readjustment benefits steadily decreases, as veterans' entitlement expires, they fully utilize benefits, or complete their education goals. Since fiscal year 1980, outlays have dropped by one-third, and the trend will continue unless new education, training, and/or vocational programs are enacted.

VA hospital and medical care costs have risen by nearly one-fourth since fiscal year 1980. The VA hospital and medical care system is being redirected toward the needs of aging veterans in order to provide the most appropriate types of care for the influx of World War II veterans. Most of these 12 million veterans will reach age 65 during this decade.

The Reconciliation Act of 1981 achieved savings of \$110 million in veterans' entitlement programs. The major reforms were (1) the elimination of flight training reimbursement, (2) reduction in correspondence school benefits, (3) restricting the eligibility for dental benefits, and (4) limiting nonservice related burial benefits to veterans who are beneficiaries of compensation or pension.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 750: ADMINISTRATION OF JUSTICE

(In billions of dollars)

	1981 Actual	1982	1983	1984	1985
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	4.35	4.35	4.55	4.60	4.55
Outlays.....	4.70	4.50	4.60	4.55	4.50
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	4.35	4.50	4.75	4.85	5.00
Outlays.....	4.70	4.55	4.75	4.85	4.95
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-0.15	-0.20	-0.25	-0.45
Outlays.....	...	-0.05	-0.15	-0.30	-0.45

HIGHLIGHTS

This function includes law enforcement programs under the direction of the Department of Justice as well as Federal litigative, judicial and correctional activities.

For fiscal year 1983, the President's budget proposes increases of 4 percent in budget authority and less than 2 percent in outlays over 1982 estimates.

Highlights of the major programs in this function are as follows:

- Federal Law Enforcement Activities--The fiscal year 1983 President's budget increases budget authority over fiscal year 1982 estimates by nearly 8 percent. This includes an 8 percent increase for the FBI, a 7 percent increase for the Drug Enforcement Administration, the elimination of the Bureau of Alcohol, Tobacco and firearms, a 22 percent increase for the Immigration and Naturalization Service, a 4 percent increase for the Customs Service and a 31 percent increase for the Secret Service.
- Legal Services Corporation--The President's fiscal year 1983 budget again proposes elimination of the Legal Services Corporation. This would save an estimated \$120 million in budget authority and \$135 million in outlays over the fiscal year 1982 estimates.
- Juvenile Justice--The President's budget proposes the elimination of the juvenile justice programs for an estimated savings of \$70 million in budget authority.

MAJOR ISSUES1. Bureau of Alcohol, Tobacco and Firearms (BATF)

The President's budget proposes the elimination of the BATF. The activities of the BATF would be assumed by the Secret Service and the Customs Service. Elimination of the BATF would take place in fiscal year 1982. When the administration proposed elimination of the BATF last year, they were prevented from doing so before March 30, 1982 by language in the Continuing Resolution. It is likely that there will be continuing opposition to the dismantling of the BATF.

2. Immigration and Naturalization Service (INS)

The President proposes to increase the INS budget by 22 percent in fiscal year 1983 over his fiscal year 1982 estimates. This increase is proposed as necessary to support the administration's immigration policy, which was introduced in legislative form in the last session. This policy would increase opportunities for aliens to work legally in the U.S., and would propose stiff penalties for those found to employ illegal aliens. This legislation would also increase allowed immigration from Mexico and Canada. Since Congress, to date, has not adopted this policy, the budget request to implement the policy will likely be an issue.

3. Legal Services Corporation (LSC)

The President's fiscal year 1983 budget again proposes the elimination of the LSC. The budget further proposes no additional funding for the LSC in fiscal year 1982 after the Continuing Resolution expires. This would, in effect, cut in half the funding level which was passed by the House and reported in the Senate. Congress rejected the President's attempt to eliminate the LSC last year. Both fiscal year 1982 and the fiscal year 1983 budgets are likely to be issues, as significant support in Congress remains for the LSC.

4. Juvenile Justice Grants

The President again proposes the elimination of juvenile justice and delinquency prevention activities. The administration was unsuccessful in their attempt to eliminate juvenile justice programs last year. Through reconciliation these programs were cut from \$100 million to \$70 million.

PERSPECTIVES

In fiscal year 1983, function 750 grows 4 percent in budget authority and less than 2 percent in outlays when compared to the President's fiscal year 1982 estimates. The President's fiscal year 1983 budget grows less than one percent compared to the fiscal year 1982 CBO baseline. The President's fiscal year 1983 budget is five percent less than the fiscal year 1983 CBO baseline.

Law enforcement activities grow approximately 8 percent in budget authority. This reflects no increases in personnel, only an attempt to maintain current services.

The Legal Services Corporation was cut from \$321 million in fiscal year 1981 to \$241 million for the year in the Fiscal Year 1982 Continuing Resolution. This represents a 25 percent cut. The President proposes to discontinue funding for fiscal year 1982 when the current Continuing Resolution expires, thereby cutting fiscal year 1982 funding by another 50 percent. Finally, he proposes complete elimination in fiscal year 1983.

Criminal justice assistance drops from the 1982 level by \$73 million, or 52 percent. This comes after a 18 percent drop from 1981 to 1982.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 800: GENERAL GOVERNMENT

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	5.10	5.15	5.25	5.40	5.20
Outlays.....	4.60	5.15	5.00	5.20	4.90
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	5.10	4.85	5.15	4.95	5.15
Outlays.....	4.60	4.70	5.00	4.90	4.95
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	+0.30	+0.10	+0.45	+0.05
Outlays.....	...	+0.45	...	+0.30	-0.05

HIGHLIGHTS

This function covers the overhead activities of the Federal Government including policy formulation and direction, revenue collection and financial management, property management, and administration of the merit personnel system. This function includes the budgets of the Congress, the White House and the Executive Office of the President, the General Services Administration, the Office of Personnel Management, and most of the Treasury Department.

The President's budget proposes amounts for 1983 that are 2.4 percent over the CBO current policy baseline estimate for budget authority and less than one percent over the CBO current policy baseline estimate of outlays.

Highlights of the major programs in this function are as follows:

- Internal Revenue Service--The administration proposes large increases in funding for IRS tax return processing and collections. The budget includes a proposed 1982 supplemental appropriation of \$123 million, a 5 percent increase over the \$2.47 billion already appropriated for these activities. In addition, the proposed 1983 budget authority of \$2.92 billion is 16 percent more than the CBO estimate of current policy. The extra funding is intended to increase tax revenues by increasing the resources available to identify and collect unpaid taxes. The administration estimates that this additional IRS funding will increase revenues by over \$2 billion.

- Reform of Excess Real Property Sales--The administration proposes to reform the sale of excess real property by the General Services Administration (GSA) by eliminating sales involving discounted prices or below market values. Currently, excess land may be donated for free to State and local governments or certain non-profit organizations. The administration proposes that these potential buyers pay full market value, with the one exception of land donated for correctional facilities. Further, Federal agencies buying surplus real property from another agency would also be required to pay full market value, rather than a discounted price. These reforms are estimated to yield an additional \$200 million of offsetting collections annually. These receipts are in addition to the estimated \$1.0 billion of receipts in function 950, Undistributed Offsetting Collections, which the administration expects to realize from an expanded disposal program following a Cabinet level review of all Federal real property.

MAJOR ISSUES

1. Internal Revenue Service

The administration assumes that over \$2.0 billion of additional tax revenues will be collected in 1983 as a result of its proposed increases in funding for IRS processing of tax returns and collection of delinquent taxes. The proposed 1983 IRS level of \$2.92 billion for these activities is \$412 million over the CBO current policy baseline amount. However, it should be noted that actual 1982 appropriations included some reductions which the Reagan administration requested for 1982, enlarging the difference between the 1982 baseline and the 1983 request.

2. Reforms of Surplus Real Property Sales

The administration proposes to eliminate free and/or discounted disposals of surplus Federal property (except real property donated to State and localities for correctional facilities). The administration estimates that this would increase offsetting collections by \$200 million a year. This proposal, if implemented, would reverse a longstanding priority for public and non-profit activities in the disposal of surplus property by GSA.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 850: GENERAL PURPOSE FISCAL ASSISTANCE

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	6.25	6.40	6.70	6.95	7.25
Outlays.....	6.85	6.40	6.70	6.80	7.10
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	6.25	6.50	6.65	7.10	7.60
Outlays.....	6.85	6.50	6.60	7.10	7.60
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-0.10	+0.05	-0.15	-0.35
Outlays.....	...	-0.10	+0.10	-0.30	-0.50

HIGHLIGHTS

Programs in this function provide general purpose fiscal assistance to State and local governments. States and localities utilize the funding to provide local services, capital projects, retire debt and other miscellaneous government activities. Almost 75 percent of the funding in this function (\$4.6 billion) is for General Revenue Sharing payments to local governments which is a major component of overall Federal aid to State and local governments. Other significant programs are payments and loans to the District of Columbia, Forest Service Receipts paid to States, payments in lieu of taxes, and payments to territories and Puerto Rico.

Highlights of the major programs in this area are as follows:

- General Revenue Sharing (GRS)--The Reagan budget proposes \$4.6 billion for this program for each of fiscal years 1982-85, the same as in fiscal year 1981. Outlays in fiscal year 1983 are estimated to decline to \$4.6 billion from \$5.1 billion in 1981, reflecting the elimination of the State portion of GRS payments in 1981.

- Other General Purpose Fiscal Assistance--

1) Payment and loans to the District of Columbia (D.C.)

The fiscal year 1983 Federal payment to District of Columbia is recommended at \$551 million, of which \$425 million is for general purposes and \$52 million for the annual Federal contribution to the D.C. retirement funds. An additional \$155 million is requested for Federal loans to fund D.C. capital improvements. Anticipating the entry of the District into the short-term municipal markets, the administration

will propose legislation to discontinue current authority to borrow interest free short-term funds from the U.S. Treasury, and proposes that long-term loans from the Federal Government to be phased out.

2) New York City loan guarantees

This function includes the \$1.6 billion guaranteed loan authority for New York City of which \$300 million in authority remains. This program was specifically designed to aid the Nation's largest city during its fiscal crisis and is not expected to result in any Federal outlays, although administrative costs are reflected in this function.

3) Payments to States from Forest Service receipts

The program is estimated to distribute \$342 million in receipts to States in which National forests are located to be used for schools and roads.

4) Payments to States and counties from Federal land management activities

This program is estimated to distribute \$763 million in 1983 to States and counties for shared revenues for natural resource activities on Federal lands.

5) Payments in lieu of taxes

This program provides fees to local governments for some Federal lands located within their jurisdiction. Legislation is proposed which is estimated to result in 1983 program costs of \$45 million compared to \$104 million in 1981.

6) Payments to territories and Puerto Rico

This program provides for the redistribution of the payments collected by the Federal Government for these jurisdictions and is estimated to total \$416 million in 1983.

MAJOR ISSUES

1. General Revenue's Sharing Payments (GRS)

The \$4.6 billion proposed for the GRS payments to local governments in 1983 is the same payment made in 1981 and is proposed for no growth through 1985. The level of GRS payment should be viewed in terms of four significant aspects as follows:

- a) The lack of provision for inflation for fiscal years 1982-1985.
- b) The decline in overall Federal aid to States and localities from \$94.8 billion in outlays in 1981 to the proposed level at \$81.4 billion in 1983, a 14 percent nominal decrease and a substantially larger decrease in real terms.

- c) The current national recession and the distressed condition of many State and local economies.
 - d) The administration's fiscal year 1984 "New Federalism" proposal which would shift GRS into a new "super" State block grant proposal.
-

PERSPECTIVES

The administration's proposals for this function, and in particular for the major program, GRS, does not provide for funding increases to allow for the impact of inflation. The GRS program, although not recommended for a funding increase, would be a likely candidate since the "no strings" block grant approach is generally reflected in the administration's views on Federalism. With the significant decline in categorical grants (e.g., mass transit, highways, Economic Development Administration) an increase in GRS payments could be beneficial as transition funding during the anticipated review of the "New Federalism" concept.

In addition, increases in Federal general-purpose fiscal assistance should be fully debated in terms of a present response to distressed State and local economies and in some cases to distressed regional economies. The administration's proposed solution to these issues is the promised growth in the national economy. However, it is not evident that even under the most optimistic circumstances that benefits will be equitably distributed among all States, localities, regions and social groups.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 900: INTEREST

(In billions of dollars)

	<u>1981</u> Actual	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	82.50	99.10	112.50	116.20	119.70
Outlays.....	82.50	99.10	112.50	116.20	119.70
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	82.50	101.80	127.50	155.40	173.10
Outlays.....	82.50	101.80	127.50	155.40	173.10
<u>PRESIDENT'S OVER/UNDER CBO:</u>					
Budget Authority.....	...	-2.70	-15.00	-39.20	-53.40
Outlays.....	...	-2.70	-15.00	-39.20	-53.40

HIGHLIGHTS

This function consists of two parts, Interest on the Public Debt and Other Interest. Other interest consists mainly of interest paid to the Treasury by the Federal Financing Bank and Federal agency revolving funds, which appears as negative outlays or offsets to interest payments by the Treasury; it also includes interest paid by the Treasury on refunds.

Interest outlays grow 20 percent in fiscal year 1982, 13.5 percent in fiscal year 1983, and 3 percent in fiscal year 1984 and fiscal year 1985, according to the administration projections.

The administration's interest outlay estimates are lower than the CBO baseline because interest rates and the deficit (and hence the amount of debt to be financed) are both projected to be lower than CBO's baseline. Specific differences are as follows:

- Treasury Bill Rate -- The administration projects 3-month Treasury bill rates at 11.7 percent in calendar 1982 and 10.5 percent in calendar 1983, compared with 12.0 and 13.2 percent projected by CBO.
- Financing the Debt -- The administration projects a rise in the debt to be financed of \$130.8 billion in fiscal year 1982 and \$122.6 billion in fiscal year 1983. This consists of unified budget deficits of \$98.6 billion and \$91.5 billion; additional intragovernmental borrowing (by

general Federal funds from trust funds) of \$12.5 billion and \$15.4 billion; and off-budget deficits of \$19.7 and \$15.7 billion for the 2 years. The CBO baseline assumes borrowing requirements of \$139 billion in fiscal year 1982 and \$186 billion in fiscal year 1983.

- Debt Limit -- The administration estimates imply that the debt subject to limit will rise to \$1,130 billion by September 30, 1982, and \$1,254 billion by September 30, 1983. The current debt limit, which expires on September 30, 1982, is \$1,079.8 billion.

MAJOR ISSUES

1. Proposed Legislation

The administration estimates reflect proposed legislation to set interest on savings bonds held for at least 5 years at 85 percent of the average market yield on 5-year Treasury securities during the holding period. While this would raise savings bond interest payments, the administration expects that savings bonds will become more attractive to investors relative to more costly marketable securities. They estimate the proposal will reduce interest outlays by \$0.3 billion in 1983 compared with existing law.

PERSPECTIVES

Net interest payments by the Federal Government will account for an unusually large share of total Federal outlays in fiscal year 1983. (Net interest is Function 900 net of the interest received by trust funds on their holdings of public debt; these interest receipts are included in Function 950 as offsetting receipts.) Net interest was 10.5 percent of the fiscal year 1981 budget and will rise to 12.7 percent in fiscal year 1983. This will be the highest share since 1948 when interest was 14.6 percent of the budget. The postwar low for interest as a percent of the budget was registered in 1968 when the share was 6.2 percent.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 920: ALLOWANCES

(In billions of dollars)

	1981 <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	...	-0.60	-1.25	-0.15	-0.30
Outlays.....	...	-0.60	-1.25	-0.20	-0.35
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	...	1.45	1.90	4.05	6.25
Outlays.....	...	1.40	2.00	4.25	6.60
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	-2.05	-3.15	-4.20	-6.55
Outlays.....	...	-2.00	-3.25	-4.45	-6.95

HIGHLIGHTS

This function traditionally includes the pay raises for civilian agencies of the Federal Government. It also includes amounts for contingencies and other Presidential proposals, if the proposals have costs or savings in more than one function but OMB cannot distribute them. In budget resolutions, the Congress generally distributes all amounts except the pay raise to other functions. Pay raises for civilian employees of the Department of Defense and the Coast Guard are contained in Functions 050: National Defense, and Function 400: Transportation, respectively.

- Civilian Agency Pay Raise--The President's estimated pay raise cost is \$757 million. This figure assumes a 5.0 percent pay raise for white collar (general schedule) and blue collar (wage board) employees. It also assumes 44 percent absorption. Additionally, the administration will make a final decision on the level of the pay raise late this summer.

CBO current policy of \$1,922 million in fiscal year 1983 represents the full cost (before absorption) of a 7 percent pay raise for civilian employees. A 7 percent pay raise is the rate assumed in the First and Second Budget Resolutions last year and the President's budget projections from last year.

- Fraud, Waste and Abuse--The President assumes savings by the Government of \$1 billion in fiscal year 1983 by reducing fraud, waste and abuse.

The savings would result from activities such as questioning and disallowing inappropriate contracting proposals or from audits to recover money and property already misallocated.

- Debt Collection--Collections would be increased and result in an additional \$1 billion in offsetting receipts to Government agencies. The budget states that this will be achieved by reducing the backlog of delinquent debts and by preventing unnecessary new delinquencies from occurring. Action under current law is expected to recover half of the \$1 billion savings and half would be recovered after legislation proposed by the administration is enacted. Savings would be achieved through activities such as increasing the effectiveness of collection officials, greater automation of record keeping, use of private collection agencies and referral of credit information on delinquent debtors to credit bureaus.

Additional debt collection savings of \$1.35 billion have been distributed among the other budget functions. Tax receipt debt collection of \$1.66 billion is also assumed by the President.

MAJOR ISSUES

1. Federal Pay Raises

Under current law, which provides for comparability with the private sector for GS and wage board pay raises, the fiscal year 1983 pay raise would be 18.6 percent. Under the President's pay reform legislation submitted to Congress last year and now being withdrawn, the fiscal year 1983 pay raise would have been 8 percent. Since Federal civilian employees have received a pay raise cap for the last 2 years, a cap for fiscal year 1983 would further accentuate the differences in comparability with the private sector. An additional concern may be the loss of high caliber Federal employees needed for efficient Government which may result from continued pay raise caps.

The full cost of a fiscal year 1983 pay raise of 5 percent would be about \$1.35 billion. Since the President's budget reflects a figure of \$757 million, it appears that absorption of 44 percent is assumed. This level of absorption, given the added constraints on discretionary spending such as travel which were initiated in fiscal year 1982, may be difficult to achieve without unintended and/or undesired agency employee level reductions.

2. Fraud, Waste and Abuse

It may be difficult to achieve the levels of savings expected under the President's budget from reductions in fraud, waste and abuse. For example, should the President's "New Federalism" initiative be enacted, turning the administration of many large programs over to the States, there may be additional problems in achieving the level of savings expected by the President.

3. Debt Collection

Estimating increases in Federal receipts that might result from better management of debt collection is subject to considerable uncertainty. The President's proposal for increased debt collection could be hampered by reductions in the personnel that effect debt collection. This issue is particularly relevant in light of the President's proposal to reduce the level of civilian employees by 75,000 between fiscal years 1982 and 1984. Presumably, some portion of the employees lost may have participated in debt collection. Also, in certain areas, such as updating

of computers, new expenses may be necessary to achieve long term savings in debt collection.

PERSPECTIVES

Civilian Agencies Work Force Reduction

The President's September budget amendment for fiscal year 1982 proposed a reduction in civilian employees of 75,000 between years 1982 and 1984. This reduction is reflected in the funding levels distributed to the agencies throughout the other budget functions. The President's fiscal year 1983 budget reflects in this function, Allowances, the outyear savings resulting from this reduction of \$700 million in fiscal year 1985, \$1.5 billion in fiscal year 1986 and \$2.3 billion in fiscal year 1987.

The following table reflects the full-time equivalent workforce of non-DOD employees which projects the reduction of the 75,000 employees:

(In thousands of employees)			
<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>
1,164	1,163	1,106	1,088

Debt Collection

Last year the General Accounting Office reported that the Federal Government has no clear assignment of responsibility for debt collection or a systematic procedure for keeping track of collecting delinquent accounts. As of September 30, 1979, GAO estimated that delinquent loans and accounts receivable amounted to \$11 billion. At the end of 1980 these debts are estimated at \$15 billion. GAO has estimated that perhaps two-thirds of these debts are collectable.

FISCAL YEAR 1983
HIGHLIGHTS AND ISSUES

FUNCTION 950: ~~UNDISTRIBUTED~~ OFFSETTING RECEIPTS

(In billions of dollars)

	<u>1981</u> <u>Actual</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
<u>PRESIDENT'S BUDGET:</u>					
Budget Authority.....	-30.30	-31.50	-43.45	-48.25	-50.05
Outlays.....	-30.30	-31.50	-43.45	-48.25	-50.05
<u>CBO CURRENT POLICY:</u>					
Budget Authority.....	-30.30	-34.25	-39.45	-45.15	-51.75
Outlays.....	-30.30	-34.25	-39.45	-45.15	-51.75
<u>PRESIDENT OVER/UNDER CBO:</u>					
Budget Authority.....	...	+2.75	-4.00	-3.10	+1.70
Outlays.....	...	+2.75	-4.00	-3.10	+1.70

HIGHLIGHTS

This function includes financial transactions that are deducted from budget authority and outlays of the Government as a whole. The four items in this function are: (1) the employer share of employee retirement programs, composed of payments by Federal agencies to employee retirement funds; (2) receipts from rents and royalties from oil leases on the Outer Continental Shelf (OCS); (3) interest received by certain trust funds; and (4) receipts from President Reagan's "Real Property Management" initiative.

- OCS Lease Sales--President Reagan proposes a "significant acceleration of OCS leasing by offering larger areas and by streamlining leasing procedures." The budget estimates that OCS leasing receipts will increase from an estimated \$7.9 billion in fiscal year 1982 to an estimated \$18 billion in fiscal year 1983. More importantly, the budget anticipates that rent and cash bonuses from sales of new OCS leases will increase from \$3.95 billion to \$13.95 billion, an increase of 253 percent.
- Sale of Real Property--President Reagan proposes a "Real Property Management" initiative to increase sales of Federal property deemed to be surplus, and of Federal land which may be of higher value to the private sector. The budget anticipates increased receipts of \$1 billion in fiscal year 1983 from this initiative.

MAJOR ISSUES1. Accuracy of OCS Receipt Estimates

The estimate of OCS receipts depends on the sales that are planned being held on schedule; the estimate of receipts to be garnered from each sale; and the estimate of what oil and gas prices will be in fiscal year 1983 and beyond. If the accelerated lease-sale schedule were to be delayed by lawsuits, or by administrative delay, like that experienced by the fiscal year 1982 leasing schedule, it would make it impossible to realize the revenue target. The administration estimates are \$6.8 billion higher than the CBO current policy estimate for fiscal year 1983. The administration has not presented a detailed explanation of how it intends to meet its estimate for OCS receipts.

2. Maximizing the Value of OCS Assets

As owner of the OCS, it may not be a wise asset management policy for the Federal Government to accelerate OCS leasing to the extent it plans. Placing so many lease sales on the schedule would produce a temporary glut in the availability of leases, and thus may artificially reduce the amount bid on them. To the extent this occurs, the Government would not be managing its assets in a way designed to obtain maximum value.

3. OCS Environmental Concerns

If a dramatic increase in lease sales leads to an environmentally unwise selection of tracts, the negative environmental consequences of such sales might partially offset the revenues gained by the Government.

4. Real Property Management Initiative

At issue is whether the administration will actively implement its Real Property Management Initiative and be able to overcome the administrative problems, and legal challenges, that may occur.

PERSPECTIVES

The administration is estimating they can receive \$18 billion in offsetting receipts from an accelerated OCS leasing schedule they plan to implement in fiscal year 1983. In fiscal year 1982, the administration now estimates it will receive \$7.9 billion in offsetting receipts. However, in fiscal year 1981, the administration received \$10.1 billion in offsetting receipts from the OCS; in other words, OCS receipts are estimated to fall from \$10.1 billion in fiscal year 1981 to \$7.9 billion in fiscal year 1982. Further, the administration had originally anticipated receiving \$11.6 billion from an accelerated leasing schedule which has been tied up in Federal court. This fact should underline the difficulty of being able to achieve \$18 billion in OCS receipts in fiscal year 1983; this would require rents and cash bonuses from new OCS lease sales to increase from \$3.95 billion in fiscal year 1982 to \$13.95 billion in fiscal year 1983, a 253 percent increase.

X. HISTORICAL PERSPECTIVE CHARTS

HISTORICAL PERSPECTIVE ON FUNCTIONAL OUTLAYS AS A PERCENT OF TOTAL BUDGET OUTLAYS

FUNCTION	Actuals						1982 Second Budget Resolution	Reagan Budget Submission (2/8/82)			
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981		1982	1983	1984	1985
050--National Defense.....	24.4	24.2	23.3	23.8	23.6	24.3	27.1	25.9	29.2	31.4	33.6
150--International Affairs.....	1.5	1.2	1.3	1.2	1.8	1.7	1.6	1.5	1.6	1.5	1.5
250--General Science, Space and Technology.....	1.2	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9
270--Energy.....	0.9	1.0	1.3	1.4	1.1	1.6	0.9	0.8	0.6	0.5	0.4
300--Natural Resources and Environment.....	2.2	2.5	2.4	2.4	2.4	2.0	1.8	1.7	1.3	1.0	0.9
350--Agriculture.....	0.7	1.4	1.7	1.3	0.8	0.8	0.6	1.2	0.6	0.6	0.5
370--Commerce and Housing Credit.....	1.0	...	0.7	0.5	1.3	0.6	0.6	0.4	0.2	0.2	-0.1
400--Transportation.....	3.7	3.6	3.4	3.5	3.7	3.6	2.9	2.9	2.6	2.3	2.2
450--Community and Regional Development.....	1.3	1.6	2.4	1.9	1.7	1.4	1.2	1.2	1.0	0.8	0.8
500--Education, Training, Employment, and Social Services.....	5.1	5.2	5.9	6.0	5.3	4.8	3.9	3.8	2.9	2.4	2.0
550--Health.....	9.1	9.6	9.7	10.0	9.6	10.0	10.5	10.1	10.3	10.5	10.8
600--Income Security.....	34.8	34.4	32.6	32.4	33.5	34.3	34.5	34.6	34.5	34.1	33.4
700--Veteran's Benefits and Services.....	5.0	4.5	4.2	4.0	3.7	3.5	3.5	3.3	3.2	3.2	3.1
750--Administration of Justice..	0.9	0.9	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.6	0.5
800--General Government.....	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6
850--General Purpose Fiscal Assistance.....	2.0	2.4	2.1	1.7	1.5	1.0	0.9	0.9	0.9	0.8	0.8
900--Interest.....	9.4	9.4	9.8	10.6	11.2	12.6	12.3	13.7	14.8	14.4	13.8
920--Allowances.....	...	...	...	...	...	...	...	...	-0.2	...	...
950--Undistributed Offsetting Receipts.....	-4.0	-3.7	-3.5	-3.7	-3.8	-4.6	-4.7	-4.4	-5.7	-6.0	-5.8
TOTAL.....	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

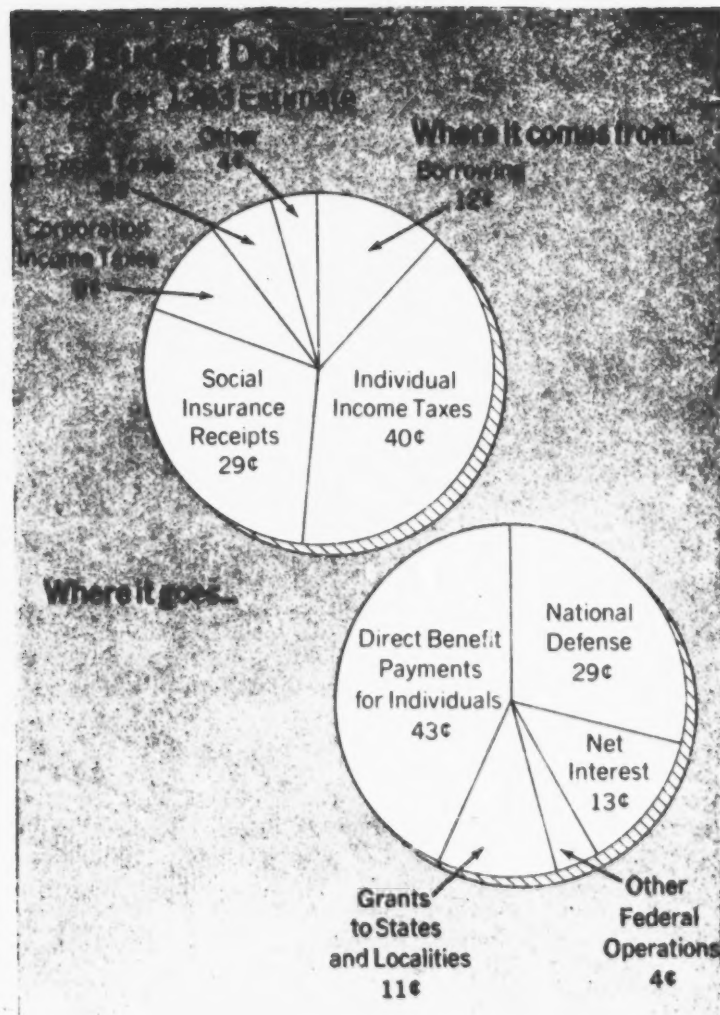
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HISTORICAL PERSPECTIVE ON FUNCTIONAL OUTLAYS
(In billions of dollars)

FUNCTION	Actuals						1982 Second Budget Resolution	Reagan Budget Submission (2/6/82)			
	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980	FY 1981		1982	1983	1984	1985
050--National Defense.....	89.40	97.50	105.20	117.70	135.90	159.80	188.80	187.50	221.10	253.00	292.10
150--International Affairs.....	5.60	4.80	5.90	6.10	10.70	11.10	11.15	11.10	12.00	12.30	13.00
250--General Science, Space and Technology.....	4.40	4.70	4.80	5.00	5.70	6.40	7.00	6.90	7.60	7.80	7.40
270--Energy.....	3.10	4.20	5.90	6.90	6.30	10.30	6.00	6.40	4.20	3.80	3.80
300--Natural Resources and Environment.....	8.10	10.00	10.90	12.10	13.80	13.50	12.40	12.60	9.90	8.40	7.70
350--Agriculture.....	2.50	5.50	7.70	6.20	4.80	5.60	4.50	8.60	4.50	5.10	4.60
370--Commerce and Housing Credit.....	3.80	0.10	3.30	2.60	7.80	3.90	4.00	3.30	1.60	1.30	-0.50
400--Transportation.....	13.40	14.60	15.40	17.50	21.10	23.40	20.40	21.20	19.60	18.80	19.40
450--Community and Regional Development.....	4.80	6.30	11.10	9.50	10.10	9.40	8.70	8.40	7.30	6.70	6.90
500--Education, Training, Employment, and Social Services.....	18.70	21.00	26.50	29.70	30.80	31.40	26.85	27.80	21.60	19.30	17.80
550--Health.....	31.50	36.60	41.20	47.00	55.20	66.00	73.35	73.40	78.10	84.90	93.50
600--Income Security.....	127.40	137.90	146.20	160.20	193.10	225.10	239.70	250.90	261.70	274.80	290.10
700--Veteran's Benefits and Services.....	18.40	18.00	19.00	19.90	21.20	23.00	24.05	24.20	24.40	25.60	26.90
750--Administration of Justice	3.30	3.60	3.80	4.20	4.60	4.70	4.45	4.50	4.60	4.60	4.50
800--General Government.....	2.90	3.30	3.70	4.20	4.50	4.60	4.90	5.10	5.00	5.20	4.90
850--General Purpose Fiscal Assistance.....	7.20	9.50	9.60	8.40	8.60	6.90	6.40	6.40	6.70	6.80	7.10
900--Interest.....	34.50	38.00	44.00	52.60	64.50	82.50	85.70	99.10	112.50	116.20	119.70
920--Allowances.....	...	...	...	...	...	...	...	-0.60	-1.30	-0.20	-0.40
950--Undistributed Offsetting Receipts.....	-14.70	-15.10	-15.80	-18.50	-21.90	-30.30	-32.90	-31.60	-43.50	-48.20	-50.00
TOTAL.....	364.50	400.50	448.40	491.00	576.70	657.20	695.45	725.30	757.60	805.90	868.50

XI. GRAPHS FOR OMB BUDGET PLAN AND DEFICITS

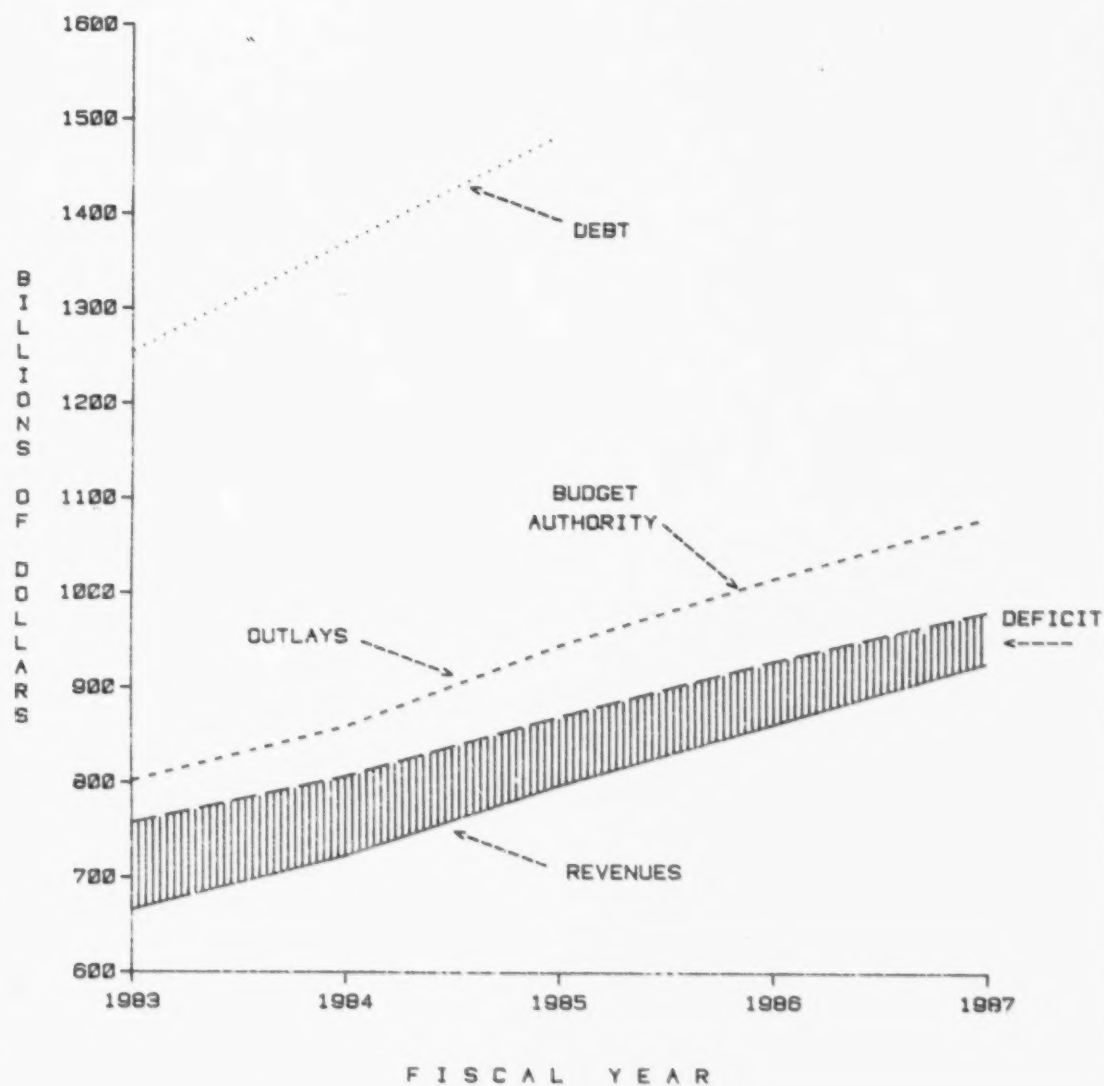
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WHERE IT WILL GO IN 1987:

- DIRECT BENEFIT PAYMENTS FOR INDIVIDUALS..... 47¢
- NATIONAL DEFENSE..... 37¢
- NET INTEREST..... 4¢
- GRANTS TO STATES AND LOCALITIES..... 9¢
- OTHER FEDERAL OPERATIONS.. 2¢

OMB MULTIYEAR PLAN
(FISCAL YEARS 1983-1987)

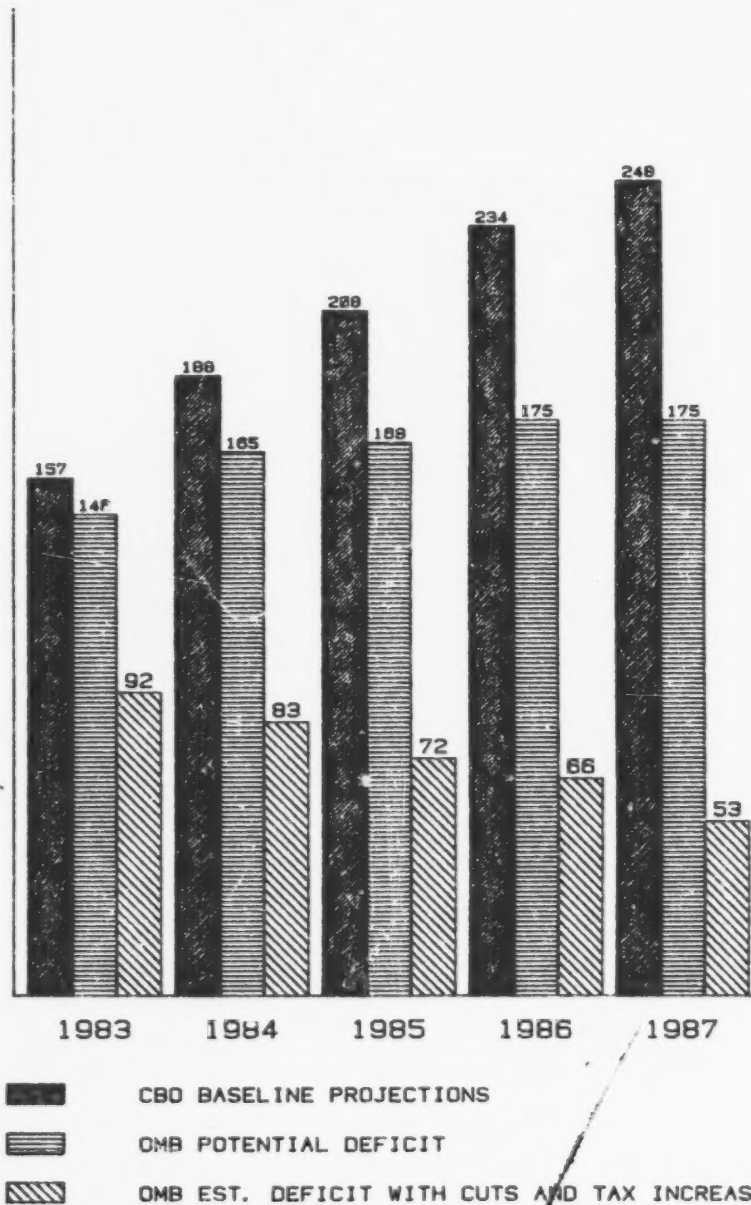


FISCAL YEARS 1983 - 1987

COMPARISON OF DEFICITS

CBO VS. OMB POTENTIAL DEFICIT VS. OMB REQUESTED DEFICIT

(IN BILLIONS OF DOLLARS)



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XII. APPENDIX A -- OMB CURRENT BUDGET ESTIMATES (April 1982)

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APPENDIX A -- OMB CURRENT BUDGET ESTIMATES (April 1982)

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

FOR IMMEDIATE RELEASE

CURRENT BUDGET ESTIMATES
APRIL 1982

GENERAL NOTES

1. All years referred to are fiscal years, unless otherwise noted.
2. Details in the tables and text of this document may not add to the totals due to rounding.

INTRODUCTION

The Congressional Budget Act of 1974 requires the President to transmit to the Congress by April 10 of each year a report updating the previous budget. This report meets that requirement and contains revised budget estimates for 1982 through 1987. The revisions are due largely to technical reestimates since the budget was issued. They also include changes resulting from Presidential initiatives or completed Congressional action. There are separate discussions of receipts, outlays, budget authority, the credit budget, and off-budget Federal entities.

The current estimates assume the same economic projections that were in the February budget. Economic conditions in recent months have deviated somewhat from those projections; some of the differences would increase outlays (such as higher interest rates) while others would decrease them (such as lower inflation and unemployment). The Administration is currently reviewing the economic outlook based on the latest economic data available. Should conditions warrant, a subsequent report will be issued assessing the revised economic outlook and its implications for the budget.

BUDGET TOTALS

Table 1 compares the revised budget totals to the February estimates.

The deficit in 1982 is currently estimated to be \$100.5 billion, \$1.9 billion more than the February budget estimate. This increase is the net result of a \$1.6 billion increase in receipts, and a \$3.5 billion increase in outlays.

The deficit in 1983 is now estimated to be \$101.9 billion, \$10.4 billion more than the February estimate. This increase is due to both reduced receipts and increased outlays. Outlays in 1983 are now estimated to be \$767.0 billion, \$9.4 billion more than the February estimate. The current estimate of receipts is \$665.1 billion, \$1.0 billion less than the February estimate.

The revised estimates of the deficits for 1984 through 1987 are also somewhat higher than in the February budget.

Table 1.--BUDGET TOTALS
(in billions of dollars)

	<u>Receipts</u>	<u>Outlays</u>	<u>Deficit (-)</u>
1981 actual.....	599.3	657.2	-57.9
1982 estimate:			
February budget.....	626.8	725.3	-98.6
Current.....	628.4	728.9	-100.5
1983 estimate:			
February budget.....	666.1	757.6	-91.5
Current.....	665.1	767.0	-101.9
1984 estimate:			
February budget.....	723.0	805.9	-82.9
Current.....	722.0	815.8	-93.8
1985 estimate:			
February budget.....	796.6	868.5	-71.9
Current.....	796.8	878.6	-81.8
1986 estimate:			
February budget.....	861.0	927.0	-66.0
Current.....	859.8	933.9	-74.1
1987 estimate:			
February budget.....	925.7	978.9	-53.2
Current.....	923.7	986.4	-62.7

RECEIPTS

The current estimate of 1982 receipts is \$628.4 billion, \$1.6 billion greater than the February budget estimate. Receipts in 1983 are estimated at \$665.1 billion, \$1.0 billion below the February estimate of \$666.1 billion. Estimates of receipts for 1984 through 1987 also have been revised.

Table 2.--CHANGE IN BUDGET RECEIPTS
(in billions of dollars)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
February budget estimate...	626.8	566.1	723.0	796.6	861.0	925.7
Policy changes:						
Modification of proposed						
tax revisions.....	0.9	-0.6	-0.5	0.7	-0.6	-1.4
Proposed Caribbean						
initiative.....	-*	-0.2	-0.2	-0.2	-0.3	-0.3
Other.....	---	*	*	*	*	*
Subtotal, policy						
changes.....	0.9	-0.7	-0.7	0.5	-0.9	-1.7
Technical reestimates.....	<u>0.7</u>	<u>-0.3</u>	<u>-0.3</u>	<u>-0.3</u>	<u>-0.3</u>	<u>-0.3</u>
Current estimate.....	628.4	665.1	722.0	796.8	859.8	923.7

* \$50 million or less.

Policy changes increase receipts by \$0.9 billion in 1982 and reduce receipts by \$0.7 billion in 1983. These changes include a modification of the tax revisions proposed in the February budget, a proposal to eliminate duties on all Caribbean products except textiles, and the proposed extension of the investment tax credit to eligible property used in Puerto Rico and qualifying Caribbean countries.

Technical reestimates, based on collection experience to date, increase 1982 receipts by \$0.7 billion. This increase reflects higher than anticipated corporation income tax collections partially offset by lower than expected collections of social security and excise taxes.

Technical reestimates of social security taxes reduce estimated receipts by \$0.3 billion in each subsequent year.

OUTLAYS

Most of the changes in outlays are due to technical reestimates, though there are a few policy changes. Table 3 shows the major revisions.

Policy changes:--Since the February budget, Administration initiatives and completed Congressional action increase estimated outlays \$0.9 billion in 1982 and \$2.8 billion in 1983.

Congressional increases to the low-income home energy assistance program result in an estimated outlay increase of \$0.1 billion in 1982 only.

Grant outlays to States increase an estimated \$0.2 billion in 1982 and \$0.3 billion in 1983 to assist State employment services help the unemployed find jobs and administer the requirement that unemployment compensation recipients accept suitable jobs when offered.

The proposed increase for atomic energy (defense) for 1982 and later years is required to meet existing schedules for production of nuclear warheads and special nuclear materials for the Department of Defense. This increases estimated outlays by \$0.3 billion in 1983 and by similar amounts in later years.

The Administration proposals for supplemental economic assistance for the Caribbean initiative increase estimated outlays by \$0.3 billion in 1982 and by \$0.1 billion in 1983. The Administration is also proposing to eliminate duties on all Caribbean imports except textiles and to extend the investment tax credit to eligible property used in Puerto Rico and qualifying Caribbean countries. This aid is intended to promote peaceful economic growth in the region.

Delaying the effective date of proposed savings for guaranteed student loans from April 1 to July 1 increases estimated outlays by \$0.1 billion in 1983.

A downward revision in the estimates of bonus receipts from the accelerated leasing schedule of the Outer Continental Shelf increases outlays \$1.9 billion in 1983 and by smaller amounts in 1984 and 1985.

Technical reestimates:--Technical reestimates increase estimated outlays by \$2.6 billion in 1982 and by \$6.6 billion in 1983.

Table 3.--CHANGE IN BUDGET OUTLAYS
(in billions of dollars)

	Estimates					
	1982	1983	1984	1985	1986	1987
February budget total.....	725.3	757.6	805.9	868.5	927.0	978.9
Changes due primarily to:						
Policy:						
Low-income home						
energy assistance...	0.1	---	---	---	---	---
Employment service...	0.2	0.3	---	---	---	---
Atomic energy						
(defense).....	0.1	0.3	0.3	0.3	0.2	0.2
Caribbean initiative.	0.3	0.1	*	---	---	---
Delaying effective						
date of guaranteed						
student loan						
savings.....	*	0.1	0.1	*	*	0.1
Outer Continental						
Shelf (receipts)....	---	1.9	1.6	0.8	---	---
Other.....	0.2	0.1	0.1	0.1	0.1	0.2
Subtotal, policy						
changes.....	0.9	2.8	2.0	1.2	0.4	0.4
Technical reestimates:						
Farm price supports						
(CCC).....	4.1	4.9	4.1	3.3	---	---
Unemployment benefits	-1.6	-0.6	0.1	0.1	0.1	0.1
TVA nuclear plants...	-0.2	---	-0.3	-0.3	-0.3	-0.3
Civilian agency pay						
raises.....	0.2	0.7	1.1	1.2	1.1	1.1
Social security.....	0.2	0.2	0.4	0.5	0.7	0.7
Net interest.....	0.1	1.1	2.8	4.1	4.9	5.5
Outer Continental						
Shelf (receipts)....	-0.3	0.4	-0.4	---	---	---
Other (net).....	*	---	---	*	*	*
Subtotal,						
reestimates.....	2.6	6.6	7.9	8.9	6.5	7.1
Subtotal, changes	3.5	9.4	9.9	10.1	6.9	7.5
Current total.....	728.9	767.0	815.8	878.6	933.9	986.4

* \$50 million or less.

Estimated outlays for farm price supports (Commodity Credit Corporation) increase \$4.1 billion in 1982, \$4.9 billion in 1983, and by smaller amounts in 1984 and 1985. The new estimates reflect changes in actual and projected commodity production and market conditions from the fall 1981 supply and demand estimates. As these conditions change, further adjustments may be necessary.

Estimated outlays for unemployment insurance benefits have been reduced by \$1.6 billion in 1982 and by \$0.6 billion in 1983 based on experience through February.

The reduction in outlays for TVA nuclear plants by \$0.2 billion in 1982 and by similar amounts in later years results from a deferral of construction of three nuclear generating units. The deferral is because of a decline in the projected demand for electricity.

The increase for civilian agency pay raises of \$0.7 billion in 1983 results from correcting an inadvertent double counting of certain personnel reductions in the February budget.

The increases for social security reflect recent experience in benefit payments for survivors and children. This increases outlays by \$0.2 billion in both 1982 and 1983 and by larger amounts in subsequent years.

Net interest outlays are expected to be higher by \$1.1 billion in 1983 and by larger amounts in later years. These revisions are due in part to the use of preliminary borrowing assumptions in the calculation of net interest for the February budget. The final borrowing assumptions were somewhat higher and the revisions correct for this discrepancy. In addition, the revisions reflect the increased borrowing required by the revised deficits included in this update. The interest payment the Federal Financing Bank makes to the Treasury has been revised to reflect changes in the credit budget.

The 1982 increase in offsetting receipts from the Outer Continental Shelf is the result of an actual sale that exceeded the estimate. The 1983 and 1984 changes are the result of a change in the proposed leasing schedule to delete one 1983 sale and delay another, as a result of which receipts would be collected in 1984.

Other technical reestimates include changes for Federal crop insurance, offsetting receipts in the Department of Interior, and several smaller changes.

BUDGET AUTHORITY

The current estimate of budget authority in 1983 is \$807.6 billion, \$5.7 billion more than the February estimate. The increases for 1984 and beyond are somewhat larger.

Table 4 shows these changes. They are primarily for the same programs and for the same reasons as described in the outlay section. The major exception is for social security and medicare. Budget authority for these programs is the same as governmental receipts to these trust funds. Recent collections indicate these receipts will be lower than estimated for the February budget.

Table 4.--CHANGE IN BUDGET AUTHORITY
(in billions of dollars)

	1982	1983	1984	1985	1986	1987
February budget total.....	765.5	801.9	858.0	943.5	1,014.1	1,078.2
Changes due primarily to:						
Policy:						
Low-income home energy assistance..	0.1	---	---	---	---	---
Atomic energy (defense).....	0.1	0.3	0.3	0.2	0.2	0.2
Caribbean initiative	0.4	---	---	---	---	---
Delaying effective date of guaranteed student loan savings.....	0.1	0.1	0.1	*	*	0.1
Outer Continental Shelf (receipts)...	---	1.9	1.6	0.8	---	---
Other.....	0.3	*	0.1	0.1	0.1	0.2
Subtotal, policy changes.....	1.0	2.3	2.0	1.1	0.3	0.4
Technical reestimates:						
Farm price supports (CCC).....	---	2.2	1.2	3.2	2.1	2.2
Unemployment benefits.....	-0.1	-0.7	0.2	0.4	0.7	0.3
TVA nuclear plants..	-0.1	-0.1	-0.3	-0.3	-0.7	-0.7
Civilian agency pay raises.....	0.2	0.7	1.2	1.2	1.1	1.1
Social security (OASDI).....	-1.4	-0.3	-0.3	-0.3	-0.3	-0.3
Medicare.....	-0.2	---	---	---	---	---
Net interest.....	0.1	1.1	2.8	4.1	4.9	5.5
Outer Continental Shelf (receipts)...	-0.3	0.4	-0.4	---	---	---
Other (net).....	0.1	-*	*	*	*	*
Subtotal, reestimates....	-1.6	3.3	4.3	8.2	7.8	8.1
Subtotal, changes.....	-0.6	5.7	6.4	9.4	8.2	8.5
Current total.....	764.9	807.6	864.4	952.9	1,022.3	1,086.7

* \$50 million or less.

CREDIT BUDGET

The credit budget covers all direct loan obligations and guaranteed loan commitments. Now in its third year, the framework is used to impose policy control on the growth of Federal credit. The budget authority and outlay effects of credit programs are included in the previous sections of this document.

As shown on Table 5, the credit budget is expected to be lower by \$6.2 billion in 1982 and higher by \$0.4 billion in 1983 than estimated in February. Program changes in both years are due largely to technical reestimates. Estimates of the credit budget have not been made beyond 1983.

New direct loan obligations:--Increases in direct loan obligations for farm price supports (Commodity Credit Corporation) of \$2.4 billion in 1982 and \$1.8 billion in 1983 reflect increased demand for commodity price support loans.

Increases in direct loan obligations for emergency disaster loans in the Farmers Home Administration (FmHA) of \$1.2 billion in 1982 result from higher than anticipated demand from current FmHA borrowers. These borrowers are eligible for loans under existing line of credit agreements.

The increase of \$0.3 billion in direct loan obligations in the Caribbean initiative is due largely to the supplemental request for funds for emergency economic assistance to countries in this region.

Direct loan obligations in the Federal Financing Bank increase by \$1.2 billion in 1982 and \$0.1 billion in 1983. This results largely from reestimates of sales of certificates of beneficial ownership (\$1.1 billion in 1982) by the Farmers Home Administration to finance increases in the emergency loan program.

New guaranteed loan commitments:--The decrease in the Federal Housing Administration guarantees of \$3.6 billion in 1982 reflects lower actual commitments than had been forecasted; and future demand for mortgage insurance is estimated to decrease due to high interest rates and other housing industry conditions.

The decreases in veterans housing guarantees of \$7.7 billion in 1982 and \$1.5 billion in 1983 are attributable to a lower than anticipated rate of home purchases by eligible veterans.

Table 5.--CHANGE IN THE CREDIT BUDGET TOTALS, 1982-1983
(in billions of dollars)

	<u>1982</u>	<u>1983</u>
February budget totals.....	143.4	147.3
Changes:		
New direct loan obligations:		
Farm price supports (CCC).....	2.4	1.8
Emergency disaster loans (FEMA).....	1.2	---
Caribbean initiative.....	0.3	---
Federal Financing Bank:		
Foreign military sales credit.....	0.1	0.1
Farmers Home Administration.....	1.1	---
New guaranteed loan commitments:		
Federal Housing Administration.....	-3.6	---
Veterans housing.....	-7.7	-1.5
Subtotal, reestimates.....	<u>-6.2</u>	<u>0.4</u>
Current totals.....	137.2	147.7

OFF-BUDGET FEDERAL ENTITIES

Since February, estimated outlays of the Federal Financing Bank (FFB) have increased by \$1.2 billion in 1982 and \$0.1 billion in 1983. This increase is due to reestimates of sales to the FFB of certificates of beneficial ownership by the Farmers Home Administration, and to increases in foreign military sales credit. These are also discussed in the credit section.

Table 6.--CHANGE IN OUTLAYS OF
OFF-BUDGET FEDERAL ENTITIES, 1982 AND 1983
(in billions of dollars)

	<u>1982</u>	<u>1983</u>
February estimate.....	19.7	15.7
Changes:		
Federal Financing Bank.....	<u>1.2</u>	<u>0.1</u>
Current estimate.....	20.9	15.8

Table 7.--BUDGET RECEIPTS BY MAJOR SOURCE
(in billions of dollars)

	Actual 1981	February Budget Estimate						Current Estimate					
		1982	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986	1987
Individual income taxes.	285.9	298.6	304.5	322.9	362.0	401.5	445.7	298.9	304.5	322.9	362.0	401.5	445.7
Corporation income taxes.....	61.1	46.8	65.3	83.7	88.2	83.9	80.7	51.6	64.6	83.0	88.7	83.2	79.1
Social insurance taxes and contributions.....	182.7	206.5	222.5	242.5	273.1	304.0	329.1	204.9	222.2	242.2	272.8	303.6	328.7
Excise taxes.....	40.8	43.0	41.7	41.5	40.8	39.2	37.9	40.7	41.7	41.5	40.8	39.2	37.9
Estate and gift taxes...	6.8	7.2	5.9	5.4	5.1	4.5	4.1	7.6	5.9	5.4	5.1	4.5	4.1
Customs duties.....	8.1	8.9	9.4	9.8	10.2	10.6	10.9	8.9	9.3	9.8	10.1	10.5	10.8
Miscellaneous receipts..	13.8	15.9	16.8	17.2	17.2	17.3	17.3	15.9	16.8	17.2	17.3	17.3	17.4
Total budget receipts.....	599.3	626.8	666.1	723.0	796.6	861.0	925.7	628.4	665.1	722.0	796.8	859.8	923.7

Table 8.--BUDGET AUTHORITY BY FUNCTION
(in billions of dollars)

	Actual	February Budget Estimate						Current Estimate					
	1981	1982	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986	1987
National defense.....	182.4	218.9	263.0	291.0	338.0	374.9	408.4	219.0	263.3	291.3	339.3	375.1	408.6
International affairs..	24.8	18.5	18.1	17.4	16.4	15.9	15.6	19.0	18.1	17.5	16.4	15.9	15.6
General science, space and technology.....	6.5	7.0	7.8	7.7	7.3	6.7	6.7	7.0	7.8	7.7	7.3	6.7	6.7
Energy.....	6.8	4.8	4.3	4.5	4.1	4.5	4.5	4.8	4.2	4.2	3.8	3.8	3.9
Natural resources and environment.....	11.1	10.0	8.4	7.7	7.3	7.0	6.4	10.1	8.4	7.7	7.3	7.0	6.4
Agriculture.....	6.6	9.6	6.9	7.3	4.5	4.5	4.5	9.6	9.1	8.5	7.7	6.7	6.7
Commerce and housing credit.....	6.5	6.3	3.4	4.2	4.6	5.4	5.8	6.3	3.4	4.2	4.6	5.4	5.8
Transportation.....	24.9	21.0	19.1	19.2	19.5	19.8	20.1	21.0	19.1	19.2	19.5	19.8	20.1
Community and regional development.....	8.1	6.6	6.7	6.9	7.0	7.0	7.0	6.6	6.7	6.9	7.0	7.0	7.0
Education, training, employment, and social services.....	30.5	23.5	18.8	17.7	17.8	17.3	16.8	23.8	19.2	17.8	17.8	17.3	16.9
Health.....	68.9	79.2	77.8	81.4	93.6	115.7	128.3	79.1	77.8	81.4	93.6	115.7	128.3
Income security.....	249.9	252.3	257.6	281.9	310.2	323.6	348.0	250.7	256.3	281.8	310.2	323.9	347.9
Veterans benefits and services.....	23.2	24.8	25.7	26.3	27.0	27.9	28.8	24.8	25.7	26.3	27.0	27.9	28.8
Administration of justice.....	4.3	4.3	4.5	4.6	4.5	4.6	4.6	4.5	4.5	4.6	4.5	4.6	4.6
General government.....	5.1	5.2	5.3	5.4	5.2	5.1	5.1	5.2	5.3	5.4	5.2	5.1	5.1
General purpose fiscal assistance.....	6.3	6.4	6.7	6.9	7.2	7.5	7.7	6.4	6.7	6.9	7.2	7.5	7.7
Interest.....	82.5	99.1	112.5	116.2	119.7	120.5	116.7	99.2	113.6	119.0	123.9	125.5	122.2
Allowances.....	---	-0.6	-1.2	-0.1	-0.3	0.5	1.4	-0.3	-0.5	1.0	0.8	1.7	2.6
Undistributed offsetting receipts...	-30.3	-31.5	-43.5	-48.2	-50.0	-54.3	-58.2	-31.8	-41.2	-47.0	-49.2	-54.3	-58.2
Total budget authority.....	718.4	765.5	801.9	858.0	943.5	1,014.1	1,078.2	764.9	807.6	864.4	952.9	1,022.3	1,086.7
ADDENDUM:													
Off-budget budget authority.....	30.7	32.6	28.8	31.6	20.4	22.1	27.4	33.8	28.8	31.6	20.4	22.1	27.4

Table 9.--OUTLAYS BY FUNCTION
(in billions of dollars)

	Actual 1981	February Budget Estimate						Current Estimate					
		1982	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986	1987
National defense.....	159.8	187.5	221.1	253.0	292.1	331.7	364.2	187.6	221.4	253.2	292.4	331.9	364.4
International affairs....	11.1	11.1	12.0	12.3	13.0	12.5	11.9	11.4	12.1	12.4	13.0	12.5	11.9
General science, space and technology.....	6.4	6.9	7.6	7.8	7.4	6.9	6.7	6.9	7.6	7.8	7.4	6.9	6.7
Energy.....	10.3	5.4	4.2	3.8	3.8	4.0	4.1	6.2	4.2	3.5	3.5	3.7	3.8
Natural resources and environment.....	11.5	12.6	9.9	8.4	7.7	6.9	6.3	12.7	9.9	8.4	7.7	6.9	6.3
Agriculture.....	5.6	8.6	4.5	5.1	4.6	2.8	2.8	12.8	9.4	9.2	7.9	2.8	2.8
Commerce and housing credit.....	3.9	3.3	1.6	1.3	-0.5	-0.8	-0.7	3.4	1.6	1.3	-0.5	-0.8	-0.7
Transportation.....	23.4	21.2	19.6	18.8	19.4	19.7	19.7	21.2	19.6	18.8	19.4	19.7	19.7
Community and regional development.....	9.4	8.4	7.3	6.7	6.9	6.7	6.7	8.2	7.3	6.7	6.9	6.7	6.7
Education, training, employment, and social services.....	31.4	27.8	21.6	19.3	17.8	17.3	16.8	27.9	21.9	19.3	17.8	17.3	16.9
Health.....	66.0	73.4	78.1	84.9	93.5	102.4	111.9	73.5	78.1	84.9	93.5	102.4	111.9
Income security.....	225.1	250.9	261.7	274.8	290.1	305.7	321.1	249.6	261.3	275.3	290.8	306.5	323.9
Veterans benefits and services.....	23.0	24.2	24.4	25.6	26.9	27.9	28.7	24.2	24.4	25.6	26.9	27.9	28.7
Administration of justice	4.7	4.5	4.6	4.6	4.5	4.5	4.6	4.6	4.6	4.6	4.5	4.5	4.6
General government.....	4.6	5.1	5.0	5.2	4.9	4.8	4.6	5.1	5.0	5.2	4.9	4.8	4.6
General purpose fiscal assistance.....	6.9	6.4	6.7	6.8	7.1	7.3	7.6	6.4	6.6	6.8	7.1	7.3	7.6
Interest.....	82.5	99.1	112.5	116.2	119.7	120.5	116.7	99.2	113.6	119.0	123.9	125.5	122.2
Allowances.....	---	-0.6	-1.3	-0.2	-0.4	0.5	1.4	-0.4	-0.5	0.9	0.8	1.6	2.5
Undistributed offsetting receipts.....	-30.3	-31.5	-43.5	-48.2	-50.0	-54.3	-58.2	-31.8	-41.2	-47.0	-49.2	-54.3	-58.2
Total budget outlays.	657.2	725.3	757.6	805.9	868.5	927.0	978.9	728.9	767.0	815.8	878.6	933.9	986.4
ADDENDUM:													
Off-budget outlays.....	21.0	19.7	15.7	14.3	11.0	10.9	9.3	20.9	15.8	14.3	11.0	10.9	9.3

Table 10.--BUDGET AUTHORITY BY AGENCY
(in billions of dollars)

	Actual	February Budget Estimate						Current Estimate					
	1981	1982	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986	1987
Legislative branch.....	1.2	1.4	1.5	1.6	1.6	1.6	1.7	1.4	1.5	1.6	1.6	1.6	1.7
The Judiciary.....	0.7	0.7	0.8	0.9	0.9	0.9	1.0	0.7	0.9	0.9	0.9	0.9	1.0
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	14.7	11.0	11.5	10.6	9.5	8.8	8.4	11.5	11.5	10.7	9.5	8.9	8.5
Agriculture.....	28.2	30.3	24.7	26.0	23.7	24.2	24.3	30.3	27.0	27.1	27.0	26.4	26.5
Commerce.....	11.2	10.0	9.7	10.5	11.2	12.9	12.5	10.1	10.0	10.8	11.4	12.2	12.7
Defense--Military.....	178.4	214.1	257.5	284.7	330.9	366.8	399.9	214.1	257.5	284.7	330.9	366.8	399.9
Defense--Civil.....	3.1	2.9	2.3	2.3	2.4	2.5	2.6	2.9	2.3	2.3	2.4	2.5	2.6
Health and Human services.....	225.8	251.4	268.4	292.3	326.4	362.0	393.9	249.9	268.1	292.0	326.0	361.6	393.5
Housing and Urban Development.....	33.4	13.0	0.7	2.8	7.4	5.4	9.4	13.0	0.7	2.8	7.4	5.4	9.4
Interior.....	6.4	2.9	3.3	3.7	3.2	3.0	2.8	3.0	3.2	3.7	3.2	3.0	2.8
Justice.....	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.5	2.6	2.6	2.6	2.6	2.6
Labor.....	29.5	26.6	26.4	24.9	24.4	24.7	25.0	26.5	25.8	25.2	24.9	25.5	25.3
State.....	2.3	2.5	2.7	2.9	2.9	3.0	3.1	2.5	2.7	2.9	3.0	3.1	3.1
Transportation.....	23.7	20.3	18.4	18.6	18.7	19.0	19.3	20.3	18.4	18.6	18.7	19.0	19.3
Treasury.....	92.7	110.3	125.0	129.8	133.6	134.1	129.8	110.4	126.0	132.5	137.7	138.9	135.2
Environmental Protection Agency.....	3.0	3.7	3.6	3.3	3.3	3.3	3.1	3.7	3.6	3.3	3.3	3.3	3.1
National Aeronautics and Space Administration.....	5.5	5.9	6.6	6.5	6.1	5.5	5.4	5.9	6.6	6.5	6.1	5.5	5.4
Veterans Administration	23.1	24.8	25.6	26.3	27.0	27.9	28.7	24.8	25.6	26.3	27.0	27.9	28.7
Foundation for Education Assistance..	12.9	11.2	8.8	7.8	7.8	7.3	6.8	11.3	8.9	7.9	7.8	7.3	6.9
Office of Personnel Management.....	29.0	34.0	35.6	37.9	40.0	41.9	43.7	34.0	35.6	37.9	40.0	41.9	43.7
Other agencies.....	21.5	17.9	10.8	10.5	10.3	11.0	11.0	18.0	10.7	10.1	10.0	10.3	10.4
Allowances.....	---	-0.6	-1.2	-0.1	-0.3	0.5	1.4	-0.3	-0.5	1.0	0.8	1.7	2.6
Undistributed offsetting receipts...	-30.3	-31.5	-43.5	-48.2	-50.0	-54.3	-58.2	-31.8	-41.2	-47.0	-49.2	-54.3	-58.2
Total budget authority.....	718.4	765.5	801.9	858.0	943.5	1,014.1	1,078.2	764.9	807.6	864.4	952.9	1,022.3	1,086.7

Table 11.--BUDGET OUTLAYS BY AGENCY
(in billions of dollars)

	Actual 1981	February Budget Estimate						Current Estimate					
		1982	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986	1987
Legislative branch.....	1.2	1.5	1.4	1.5	1.5	1.6	1.6	1.5	1.4	1.5	1.5	1.6	1.6
The Judiciary.....	0.6	0.7	0.8	0.9	0.9	0.9	0.9	0.7	0.8	0.9	0.9	0.9	0.9
Executive Office of the President.....	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Funds appropriated to the President.....	7.0	6.4	6.9	7.6	7.9	7.1	7.0	6.6	7.1	7.7	7.9	7.2	7.1
Agriculture.....	26.0	29.4	23.5	24.0	23.9	22.3	22.5	31.6	28.4	28.1	27.2	22.3	22.5
Commerce.....	11.5	11.6	9.9	10.1	10.6	11.3	11.9	11.7	10.1	10.4	10.9	11.5	12.1
Defense--Military....	156.1	182.8	215.9	247.0	285.5	324.0	356.0	182.8	215.9	247.0	285.5	324.0	356.0
Defense--Civil.....	3.1	3.0	2.3	2.1	2.2	2.3	2.4	3.0	2.3	2.1	2.2	2.3	2.4
Health and Human services.	228.1	252.9	274.2	294.2	317.1	340.3	365.3	253.3	274.3	294.5	317.6	340.9	366.0
Housing and Urban Development.....	14.0	14.6	13.1	13.4	13.6	14.0	14.5	14.6	13.1	13.4	13.6	14.0	14.5
Interior.....	6.0	3.1	3.3	3.1	2.9	2.6	2.5	3.2	3.2	3.1	2.9	2.6	2.5
Justice.....	2.8	2.6	2.7	2.6	2.6	2.6	2.6	2.7	2.7	2.6	2.6	2.6	2.6
Labor.....	30.1	32.1	26.5	23.6	21.0	19.9	19.4	30.6	26.3	23.8	21.2	20.1	19.5
State.....	1.9	2.2	2.4	2.6	2.6	2.8	2.9	2.2	2.5	2.6	2.7	2.8	2.9
Transportation.....	22.5	20.6	19.0	18.1	18.8	18.9	19.0	20.6	19.0	18.1	18.8	18.9	19.0
Treasury.....	93.4	110.0	124.5	129.4	133.1	133.6	129.3	110.1	125.5	132.1	137.1	138.4	134.8
Environmental Protection Agency.....	5.2	5.4	4.6	4.1	4.0	3.5	3.2	5.4	4.6	4.1	4.0	3.5	3.2
National Aeronautics and Space Administration....	5.4	5.8	6.6	6.5	6.2	5.7	5.5	5.8	6.6	6.5	6.2	5.7	5.5
Veterans Administration...	22.9	24.1	24.4	25.6	26.9	27.8	28.7	24.1	24.4	25.6	26.9	27.8	28.7
Foundation for Education Assistance.....	13.1	13.4	11.4	8.9	7.9	7.4	6.9	13.4	11.5	9.0	7.9	7.4	7.0
Office of Personnel Management.....	18.1	19.9	21.7	23.2	25.0	26.9	29.0	19.9	21.7	23.2	25.0	26.9	29.0
Other agencies.....	17.6	15.0	7.1	5.9	4.6	5.2	4.5	14.9	7.1	5.6	4.3	4.9	4.2
Allowances.....	---	-0.6	-1.3	-0.2	-0.4	0.5	1.4	-0.4	-0.5	0.9	0.8	1.6	2.5
Undistributed offsetting receipts.....	-30.3	-31.5	-43.5	-48.2	-50.0	-54.3	-50.2	-31.8	-41.2	-47.0	-49.2	-54.3	-58.2
Total budget outlays..	657.2	725.3	757.6	805.9	868.5	927.0	978.9	728.9	767.0	815.8	878.6	933.9	986.4

XIII. APPENDIX B -- CBO ANALYSIS OF THE PRESIDENT'S FISCAL YEAR 1983 BUDGET

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APPENDIX B

CBO ANALYSIS OF THE PRESIDENT'S FISCAL YEAR 1983 PROPOSALS

At the request of the Senate Committee on Appropriations, the Congressional Budget Office prepared an analysis of the President's budgetary proposals for fiscal year 1983. The report describes the problem of chronic budget deficits faced by the Federal government under existing laws and current spending programs, and the administration's proposals for dealing with this problem. This report presents the CBO reestimates of the President's proposals based on CBO economic assumptions and on CBO's technical estimating methodology and programmatic assumptions. Finally, the report analyzes in some detail the major budget increases proposed for national defense programs.

A comparison of the President's budget and the CBO analysis by fiscal year, in billions of dollars, is as follows:

	President's Budget				CBO Analysis			
	1982	1983	1984	1985	1982	1983	1984	1985
Revenues...	626.8	666.1	723.0	796.6	627.7	660.1	715.6	776.1
Outlays....	725.3	757.6	805.9	868.5	738.8	780.7	844.5	917.7
Deficit....	-98.6	-91.5	-82.9	-71.9	-111.1	-120.6	-128.9	-139.6

The CBO economic and technical reestimates assume that all of the President's legislative proposals to increase taxes and cut spending are approved by Congress, and also that the administration is successful in meeting most of its targets for revenue increases and outlay savings from management initiatives; however, the CBO points out that the management savings appear to be very optimistic.

You will note that technical estimates account for most of the upward swing in the total for fiscal years 1982 and 1983 while economic assumptions only become a major factor in 1984 and 1985. The CBO reestimates of the spending proposals (by fiscal year, in billions of dollars) is as follows:

	1982	1983	1984	1985
CBO reestimates:				
Different economic assumptions..	1.2	3.2	16.4	24.2
Technical reestimates.....	12.2	19.9	22.1	23.0
Total Reestimates.....	13.5	23.1	38.5	47.2

The CBO technical analysis of the administration's budget estimates suggests that revenues may be overestimated in the February budget by about \$5 billion in 1983, \$13 billion in 1984, and \$16 billion in 1985. The technical reestimates for revenues result mainly from different estimates of the revenue effects of the Economic Recovery Tax Act. On the outlay side, CBO's technical reestimates suggest larger differences, averaging more than \$20 billion or a two percent increase during 1983-85. The major differences involve the cost of farm price supports, the rate of spending for defense procurement activities, likely receipts to be derived from the proposed accelerated leasing of OCS lands, and net interest costs. These four areas account for three-fourths of all the differences in CBO's technical reestimates for 1983-85 outlays.

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